



Industrial Bank Co., Ltd.

Annual Report 2003

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Warrant

The Directors and Board of Directors of the Bank hereby warrant that there are not any false record, nor misleading statement, nor important missing existing in this Report and take the individual and related responsibility for the truthfulness, accuracy and completeness of this Report. The 2003 Annual Report of the Bank was reviewed and approved by the 22nd Session of the 4th Board of Directors on May 25, 2004.

The Annual Financial Report of the Bank has been audited by Fujian Huaxing Certified Public Accountants Ltd in accordance with the domestic Auditing Standards.

A Standard Auditors' Report without reservation has been issued by Fujian Huaxing Certified Public Accountants Ltd.

Board of Directors
Industrial Bank Co., Ltd.

(Both Chinese and English versions of the Annual Report are available. It is subjected to the Chinese version should there be any different interpretations.)

Chairman's Statement

Year 2003 is a landmark in the history of Industrial Bank (the Bank). The Bank adopted the target to build a first-class modern commercial bank and to reshape its core competitive edge by insisting on its industrious and progressive tradition. All its efforts led to fruitful results as the Bank witnessed a fast expansion in market share and accomplished strategic breakthroughs in some respects which improved its operation and management remarkably.

The strength of the Bank was reinforced due to the fast and healthy growth in all respects. As of the end of 2003, the total assets amounted to RMB260 billion, an increase of 36.1% from previous year; deposits outstanding were RMB207.7 billion, upped 42.8%; loans outstanding reached RMB156.9 billion, an increase of 41.5%. The asset quality of the Bank was improved steadily and kept on leading the domestic peers. At the year end, the non-performing loan ratio was 2.49% based on the standards Five-tier Classification, a decrease of 0.62%. And the economic result rose remarkably with a net profit of RMB985 million realized, an increase of 106.6% from last year. The ratio of assets and liabilities was reasonable and all index met the requirements of the regulator. Service network was well expanded with Tianjin and Chengdu branches opened on schedule, Financial Market founded in Shanghai, e-banking CIB Online approved by the People's Bank of China, and the Nationwide Customer's Hotline 95561 put into use. In addition, the innovation of science and technology was fruitful as the Bank's updated Core Business Handling System was set to use successfully, and the Bank became one of the first batch of banks providing a ceaseless service of 24 hours a day and 365 days a year in the domestic peers. When Shanghai Computer Operation Center was built and put into production, it indicated that a new round network expansion of the Bank has been completed successfully.

The Bank followed the steps of the state financial reform and realized many strategic breakthroughs, details as follows :

In March, the Bank was approved to change its name to Industrial Bank Co., Ltd. indicating that the Bank became a nationwide bank.

On Dec. 17, 2003, the Bank signed a Share Subscription Agreement with Hang Seng Bank, GIC Special Investment Pte Ltd. and International Finance Corporation respectively in Fuzhou with an amount about RMB2.7 billion shares subscribed, representing 25% of the total shares. This is a case with highest foreign investment in respects of amount, percentage, shareholders and P/B value.

In December, the Bank issued RMB3 billion worth of subordinated bond successfully, a first Chinese commercial bank applied this approach to supplement capital.

These achievements should be attributed to the leadership of Communist Party

of China (CPC) and governments at various levels, to relevant regulators, to the devotion of our staff, to the consistent support of our shareholders and all clients from various circles of the society. To them I hereby express my gratitude on behalf of the Board of Directors.

In 2004, following the spirits of the state highlighted in the 3rd Session of the 16th National Congress of Communist Party of China, based on Public Offering, the Bank will focus on building a first-class modern commercial bank and contribute to China's economic construction and the development of banking industry with sound management, perfect services and best economic results.

A Brief Introduction to Industrial Bank

Legal Chinese name :	兴业银行股份有限公司
Legal English name :	INDUSTRIAL BANK CO.,LTD.
Abbreviated English name :	Industrial Bank (“The Bank”)
Introduction :	<p>The Bank is one of China’s first batch of joint-stock commercial banks authorized by the People’s Bank of China, China’s central bank. Founded in August 1988, Industrial Bank is headquartered in Fuzhou, Fujian Province.</p> <p>Currently, the Bank has more than 250 branches or sub-branches in China’s major cities including Shanghai, Beijing, Tianjin, Shenzhen, Guangzhou, Fuzhou, Jinan, Hangzhou, Nanjing, Chongqing, Wuhan, Shenyang, Xiamen, Chengdu, Changsha, Ningbo and Wuxi.</p> <p>The Bank provides comprehensive commercial banking services pursuant to the Commercial Banking Law of the People’s Republic of China as well as other services set forth in the State’s relevant laws and administrative regulations.</p>
Legal representative :	Gao Jianping
Registered address :	154 Hudong Road, Fuzhou, Fujian, PRC
Contact details:	(86) 591-7824863 Fax : (86-591) 7842633 Post code: 350003 Website : http://www.cib.com.cn

Financial Highlights

I. Key Indicators of Income

Unit: RMB 100 million

Item	Year 2003
Profit before tax	16.33
Net profit	9.85
Core Business profit	16.23
Operating revenue	16.23
Investment income	8.90
Non-operating income(net)	0.10
Net cash flows from operating activities	21.82

II. Key Accounting Data for the past 3 years

Unit: RMB 100 million

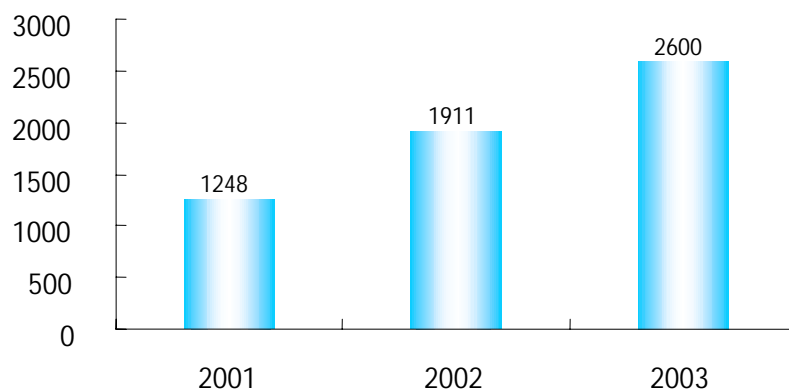
Item	2003	2002	2001
Total assets	2599.99	1910.63	1248.41
Total liabilities	2530.00	1847.19	1189.73
Total deposits	2076.50	1454.65	866.22
Total loans	1569.45	1108.93	754.59
Net profit	9.85	4.77	4.82
Shareholders equity	69.99	63.44	58.68
Core business income	93.11	64.01	45.81
EPS (RMB)	0.33	0.16	0.16
NAV per share (RMB)	2.33	2.11	1.96
Net cash flow (per share) from operating activities (RMB)	0.73	0.43	0.27

III. Key ratios for the past 3 years

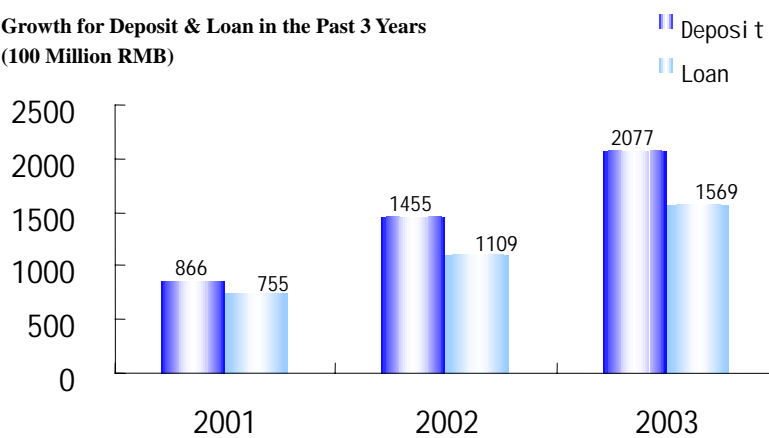
Unit:%

Item	2003	2002	2001
ROE	14.07	7.52	8.21
Loan to deposit ratio :			
RMB	69.71	64.36	62.18
Foreign currency	70.83	50.64	54.76
Reserve ratio :			
RMB	23.46	19.52	24.26
Foreign currency	7.99	6.10	8.41
Interest recovery ratio :	96.26	94.96	99.05

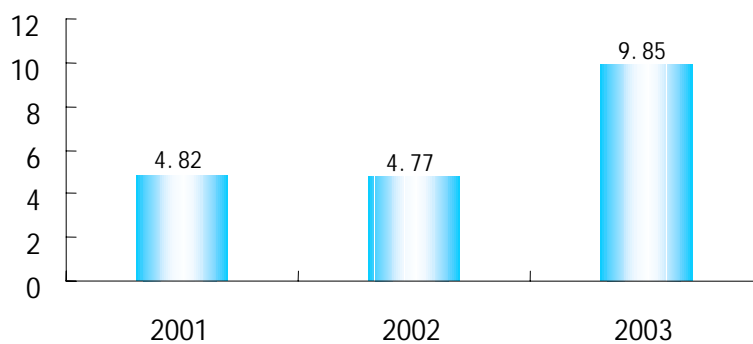
Growth for Total Assets in the Past 3 Years (100 Million RMB)



Growth for Deposit & Loan in the Past 3 Years (100 Million RMB)



Growth for Net Profit in the Past 3 Years (100 Million RMB)



Business Development

The Bank witnessed a rapid growth in corporate banking, financial institutions banking , personal banking and capital market in 2003.

Corporate Banking

In 2003, the marketing system and approaches of corporate banking were enriched which led to a large business expansion with better economic result. As of the year end, the corporate deposits outstanding were RMB165.7 billion, an increase of 40.3%, corporate loans outstanding were RMB155.1 billion, upped 59.6%, and the asset quality of corporate banking kept on leading status in domestic peers.

In 2003, the Bank put a series of characteristic banking products and banking services to the market including factoring, integrated disbursement for Treasury, agency to regularly levy limited tax for Tax Department on certain enterprises, agency for paying tax and fees on behalf of certain enterprises, centralized account management for enterprises engaging in purchase and sale of tobacco leaves.

Financial Institutions Banking

The Bank intensified the professional management of financial institutions banking and attached great importance to marketing and garnered a rapid growth of market share in return. In 2003, the newly increased financial institution clients amounted to 178 with an outstanding deposit of RMB70.5 billion at the year end; agency for the settlement of securities amounted to RMB434.6 billion, settlement of bonds reached RMB20.3 billion and settlement of trusts products were RMB1.4 billion.

In 2003, the Bank launched a series of new banking products, such as agency for sales of trust products, funds, portfolio management, cooperation with securities firms, auto-accounts for securities transaction, and prepared for funds trusteeship.

Personal Banking

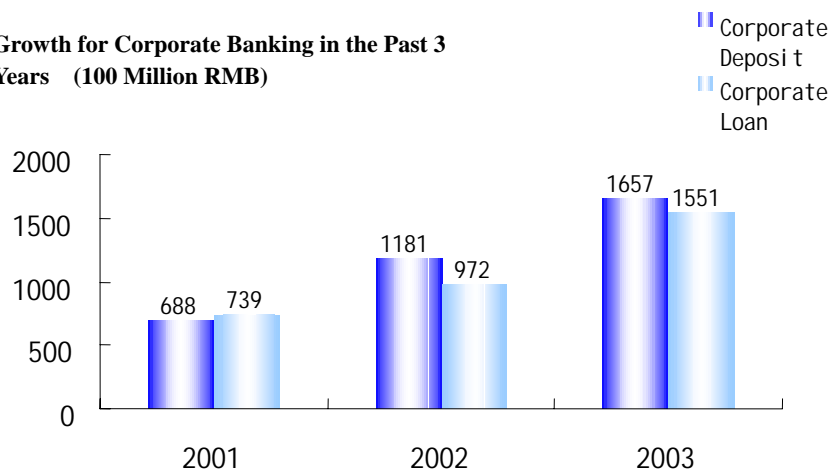
The Bank restructured the performance checking system, business authorization and marketing means which led to a rapid expansion of personal banking. In 2003, the personal saving deposits outstanding were RMB17.1 billion, upped 22.1% than the previous year; while the personal loans outstanding amounted to RMB8 billion, an increase of 247.8%. As of the year end, there were 3,120,000 debit cards issued, an increase of 38.1%. The Bank also witnessed a rapid growth in such business as agency for insurance and funds sales.

In 2003, the Bank launched personal credit facility, personal pioneering loan, housing reserve fund loan, secondary house secured loan, 11 kinds of Co-brand Cards, government bond repurchase management and management advisor for foreign exchange asset. In addition, the Bank was also approved to conduct personal foreign exchange trading.

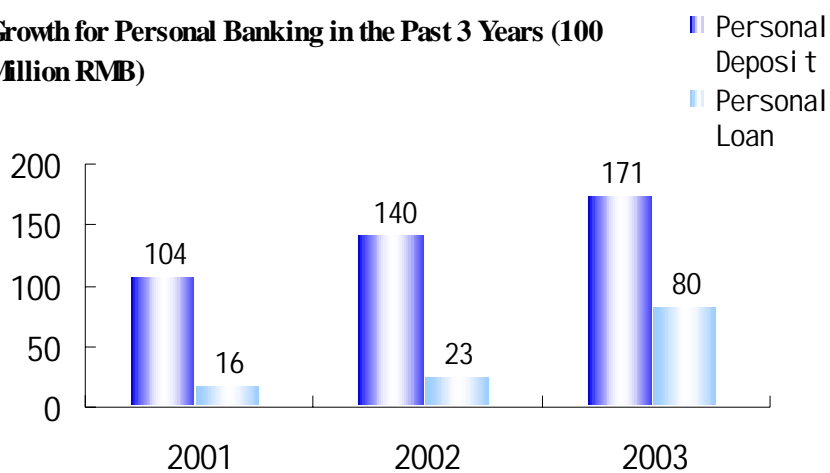
Capital Market

In 2003, the Bank opened its Financial Market in Shanghai and realized a professional capital operation. The Bank was active in the financial institutions market and its trading volume got ranked higher and higher. In 2003, its RMB trading volume ranked No. 20 among all the market participants, and its RMB lending and borrowing volume ranked No. 8. Thus, the Bank was awarded the Best Member of Foreign Exchange Market & Inter-bank Bond Market.

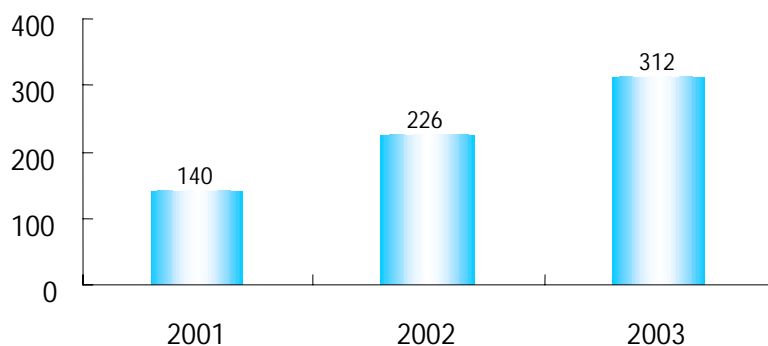
Growth for Corporate Banking in the Past 3 Years (100 Million RMB)



Growth for Personal Banking in the Past 3 Years (100 Million RMB)



Growth for Bank Debit Cards Issued in the Past 3 Years (10,000 Pieces)



Shareholders and Changes in Shareholding Structure

1. Changes of share capital

Unit: shares			
	Shares prior to change	Change (+ 、 -)	Shares after change
1.State stock	1204761073	0	1204761073
2.State-owned corporate stock*	1209700352	-26105983	1183594369
3. Other	585538575	26105983	611644558
Total	3000000000	0	3000000000

*The quantity of state-owned corporate stock is calculated according to corporate nature reflected by the Industrial and Commercial Registrations.

2. Shareholders

(1) The Bank has a total of 161 shareholders at the end of the reporting period, which altogether held 3 billion of the Bank's shares.

(2) Changes of shareholders

During the reporting period, the Bank's shareholders changes as follows: Huamin (Group) Co., Ltd has transferred its ownship of 133,333,334 shares to Fujian Energy Investment Co., Ltd; China Merchants Ship Co., Ltd has transferred its ownship of 84,000,000 shares to Shenzhen Chuyuan Investment & Development Co., Ltd.; Shanghai Nongkai (Group) Co., Ltd has transferred its ownship of 70,000,000 shares to Sanshui Jianlibao Health Industry Investment Co., Ltd.; Baotou Haoyu Sci-tech Holdings Co., Ltd has transferred its ownship of 70,000,000 shares to Xishui Strong Year Co., Ltd Inner Mongolia.

(3) The top 12 shareholders of the Bank at the end of the reporting period are as follows:

Unit : shares				
Shareholders	Closing balance	Opening balance	Change	Weight (%)
Fujian Finance Department	1020000000	1020000000	0	34.00
China Electronics Corporation	150000000	150000000	0	5.00
Fujian Energy Investment Co., Ltd	133333334		133333334	4.44
Shenzhen Chuyuan Investment & Development Co., Ltd	84000000		84000000	2.80
UDC Development & Investment Co., Ltd.	75000000	75000000	0	2.50
Changsha Cigarette Factory	70000000	70000000	0	2.33
Orient International Group Corp	70000000	70000000	0	2.33
Guohua Energy Investment Co., Ltd.	70000000	70000000	0	2.33

Shanghai Baosteel Group Corporation	70000000	70000000	0	2.33
Longyan Finance Bureau of Fujian Province	70000000	70000000	0	2.33
Sanshui Jianlibao Health Industry Investment Co., Ltd	70000000		70000000	2.33
Xishui Strong Year Co., Ltd Inner Mongolia	70000000		70000000	2.33
Total	1952333334	1595000000	357333334	65.05

Notes:

Among the top 12 shareholders of the Bank, the shares held by Fujian Finance Department and the Longyan Finance Bureau of Fujian Province were on behalf of the State.

During the reporting period, the shares held by Orient International Group Corp and Xishui Strong Year Co., Ltd Inner Mongolia were held as pledges.

The shares held by Fujian Finance Department and China Electronics Corporation, both of which accounted for more than 5 percent of the Bank's total equity, and Fujian Finance Department is the controlling shareholder.

There are not any affiliated companies among the top 12 shareholders.

(4) A brief introduction to the shareholders who hold more than 5% shares of the Bank.

Fujian Finance Department: a government institution

Legal representative: Mr. Ma Lusheng

Legal address: No. 5, Zhongshan Road, Gulou District, Fuzhou, China

Post Code: 350003

China Electronics Corporation: a State-owned enterprise, engages in information transmission, computer service and software industry

Legal representative: Mr. Yang Xiaotang

Legal Capital: 5.734 billion

Legal address: No. 27, Wanshou Road, Haiding District, Beijing, China

Post Code: 100846

Directors, Supervisors, Senior Management and the Staff

I. Directors, Supervisors and Senior Management

1. Background Information

Name	Post	Employment	Gender	Age
Gao Jianping	Chairman	Industrial Bank Co., Ltd.	male	44
Li Renjie	Director, President	Industrial Bank Co., Ltd.	male	48
Bi Zhonghua	Director, Vice President	Industrial Bank Co., Ltd.	female	51
Kang Yukun	Director, Vice President	Industrial Bank Co., Ltd.	male	49
Chen Xinjian	Director	Fujian Finance Department	male	37
Zhang Yutang	Director	China Electronics Corporation	male	46
Chen Ruizeng	Director	Huamin (Group) Co., Ltd.	male	52
Xu Yimeng	Director	Hunan Electric Power Co., Ltd	male	43
Dong Binggen	Director	UDC Development & Investment Co., Ltd.	male	55
Huang Dazhan	Director	China Merchants Ship Co., Ltd	male	46
Wang Zukang	Director	Orient International Group Corp	male	67
Zhan Xinghua	Director	Shanghai Baosteel Group Corporation	male	32
Li Zhenxi	Director	Beijing Suntendy Interactive Multimedia Co., Ltd.	male	43
Mei Xueyan	Director	Guohua Energy Investment Co., Ltd.	female	41
Xie Jianhong	Director	Changsha Cigarette Factory	male	35
Xiao Wei	Director	China PingAn Trust & Investment Co., Ltd.	male	47
Huang Guangtong	Chief Supervisor	Industrial Bank Co., Ltd.	male	58
Liu Peiyuan	Supervisor	Industrial Bank Co., Ltd.	male	52
Hua Bing	Supervisor	Industrial Bank Co., Ltd.	male	37
Zhang Houlin	Supervisor	Shanghai Fosun Industrial Investment Co., Ltd.	male	36
Chen Benting	Supervisor	Shanghai Dongsheng Trade Co., Ltd.	male	51
Liang Yongxin	Supervisor	Fujian Huaxing Trust & Investment Co., Ltd.	male	55

Li Shaolin	Supervisor	Fujian Xiesheng Industrial Co., Ltd.	female	42
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Neither the directors nor supervisors hold any shares of the Bank personally.

2. The posts of directors and supervisors appointed by shareholders

Name	Shareholders	Post
Chen Xinjian	Fujian Finance Department	Head of Foreign Debts & Finance Division
Zhang Yutang	China Electronics Corporation	Vice General
Xu Yimeng	Hunan Electric Power Co., Ltd.	Head of Financial Division
Dong Binggen	UDC Development & Investment Co., Ltd.	Chairman
Wang Zukang	Orient International Group Corp	Ex-Chairman
Zhang Xinghua	Shanghai Baosteel Group Corporation	Vice General Manager of Fortune Trust & Investment Co., Ltd under Shanghai Baosteel Group Corporation
Mei Xueyan	Guohua Energy Investment Co., Ltd.	Vice General Manager
Xie Jianhong	Changsha Cigarette Factory	Vice General Manager
Xiao Wei	China PingAn Trust & Investment Co., Ltd.	Vice General Manager of Strategic Planning & Development Dept. under Ping An Insurance (Group) Company of China
Zhang Houlin	Shanghai Fosun Industrial Investment Co., Ltd.	General Manager of Treasury Division of Shanghai Fusun High-tech (Group) Co., Ltd.
Chen Benting	Shanghai Dongsheng Trade Co., Ltd.	General Manager
Liang Yongxin	Fujian Huaxing Group Co., Ltd.	General Manager
Li Shaolin	Fujian Xiesheng Industrial Co., Ltd.	Vice General Manager

Other directors and supervisors do not have any posts appointed by shareholders.

3. Senior Management

Mr. Gao Jianping, Chairman of the Bank, senior economist, has been engaging in economic and financial work for more than 15 years; ever served the following posts:

- Vice General Manager of the Executive Office of Industrial Bank;
- Head of Industrial Bank Fuzhou Economic & Technological Development Zone Office;

- General Manager of the Executive Office of Industrial Bank;
- Head of the Preparatory Team of Industrial Bank Shanghai Branch;
- Vice President of Industrial Bank and President of Industrial Bank Shanghai Branch;
- Vice President of Industrial Bank (presiding over the Bank);
- President of Industrial Bank.

Mr. Li Renjie, President of the Bank, senior economist, has been engaging in economic and financial work for 23 years; ever served the following posts:

- Director of the Planning Department of PBOC Fujian Branch;
- Executive Director and Vice General Manager of Jiangnan Financial (Hong Kong) Co., Ltd;
- Chairman of the Board of Directors of Great Wall Securities Co. Ltd.;
- Head of the Preparatory Team of Industrial Bank Shenzhen Branch;
- President of Industrial Bank, Shenzhen Branch;
- Vice President of Industrial Bank.

Mr. Huang Guangtong, Chief Supervisor, senior administrant, has been engaging in economic and financial work for 12 years, ever served the following posts:

- Vice General Manager and General Manager of Personnel Department of Industrial Bank;
- Chairman of the Labor Union of Industrial Bank;
- CPC Vice Secretary and Secretary of Industrial Bank in institutional base;
- General Manager of Human Resource Department of Industrial Bank.

Ms Bi Zhonghua, Vice President, senior economist, has been engaging in economic and financial work for 27 years, ever served the following posts:

- Vice General Manager and General Manager of International Business Department of Industrial Bank;
- Assistant President of Industrial Bank and General Manager of International Business Department of Industrial Bank;
- Assistant President of Industrial Bank and General Manager of Head Office Banking Department of Industrial Bank.

Mr. Kang Yukun, Vice President, senior economist, has been engaging in economic and financial work for 19 years, ever served the following posts:

- Vice Manager of Credit Department of Industrial Bank;
- Vice President of Industrial Bank Putian Branch;
- Vice President of Industrial Bank Fuzhou Branch;
- President of Industrial Bank Fuzhou Branch.

During the reporting period, there were not any new employments, nor any dismissions in relation with the senior management.

4. The Remuneration of Senior Management

There were 7 persons including directors, supervisors and senior management of the Bank received remuneration from the Bank in the reporting period, among which, the remuneration of the top 5 totaled RMB2,250,600 Yuan while the other two totaled RMB504,400 Yuan.

II. The Staff of the Bank

At the end of the reporting period, the Bank has 6250 employees in enrollment, among which, 5248 persons are colleges (graduate or post graduate) educational background, represented 84% of the total; and 2058 persons with senior professional titles, accounted for 33%. The average age of the staff is 31.5 years. So far, only 3 employees retired.

Corporate Governance

In the reporting period, the Bank introduced three strategic foreign investors and revised the existing Articles of Association in accordance with relevant laws, administration rules and regulations, and the requirements for listed banks. The Articles of Association has been approved by the General Shareholders Meeting of the Bank and submitted to the approval of China Banking Regulatory Commission.

Recently, the Bank was engaging in revising the Rules of the Board of Directors, the Supervisory Board and the Shareholders Meeting, enacting Regulations for Independent Directors and restructuring the sub-committees of Board of Directors and Supervisory Board, details as follows:

1. With reference to shareholders and the General Shareholders Meeting

The Bank went through all procedures including Shareholders Meeting convening, notice publicizing, document preparation, meeting reports and resolution adoptions in accordance with the requirements of relevant laws, rules and regulations, the Articles of Association and the Rules of General Shareholders Meeting to ensure that all shareholders enjoyed the rights of information and participation. The Bank always invited lawyers to witness all shareholders meetings and issued Official Legal Opinion.

2. With reference to directors and the Board of Directors

The Bank elected directors strictly abiding by the requirements of relevant laws, rules and regulations and the Articles of Association of the Bank. The Board of Directors was responsible for the General Shareholders Meeting and convened regular and occasional meetings according to legal procedures concerned. The procedures of decision making and voting of the Board of Directors always followed the requirements of relevant laws, rules and regulations and the Articles of Association of the Bank. All directors were industrious with keen sense of responsibility and attached great importance to safeguarding the interests of the Bank and all shareholders as well.

3. With reference to supervisors and the Supervisory Board

The Bank elected supervisors following the requirements of relevant laws, rules and regulations and the Articles of Association of the Bank. All the supervisors attached great importance to their duties on behalf of the shareholders and supervised the behaviors of the accountants, directors, the president and other senior management to safeguard the legal interests of the Bank and all shareholders.

Extracts of General Shareholders Meeting

1. Notification, convening and opening of General Shareholders Meeting

The Bank issued a notice of the 2002 General Shareholders Meeting of Industrial Bank Co., Ltd. on the Financial Times and Fujian Daily On May 28, 2003. The Meeting was held in Fuzhou on June 28, 2003. Ninety two shareholders and authorized representatives presented the meeting who represented 2,593,560,264 shares, accounted for 86.45% of the total shares, which was in conformity with the Company Law of the People's Republic of China and the relevant regulations of the Bank's Articles of Association.

2. Resolutions Adopted by the General Shareholders Meeting

The 2002 General Shareholders Meeting of the Bank examined and passed the following resolutions: Report of the Board of Directors of Industrial Bank Co., Ltd. 2002; Report of the Supervisory Board of Industrial Bank Co., Ltd. 2002; Financial Statements for 2002 and Financial Budget Program for 2003 (Draft) of Industrial Bank Co., Ltd.; Profit Distribution Program of Industrial Bank Co., Ltd. 2002; Proposal on the Changes of Certain Directors of the Board of Directors of Industrial Bank Co., Ltd..

C & I Partners (a Beijing Based Law Firm) presented a legal opinion on the legality and validity of the meeting's convening, opening procedures, qualifications of the participating shareholders and the resolutions adopted in the meeting.

3. Election and Changes of Directors and Supervisors

The directorships of Mr. Wu Yonghong and Mr. Zhou Zhengyi were deposed and Mr. Zhang Yutang was supplemented as a director of the 4th Session of the Board of Directors in the 2002 General Shareholders Meeting of the Bank.

During the reporting period, Mr. Deng Ganhua, a director of the Bank, died of disease.

Report of the Board of Directors

I. Business Development in 2003

In 2003, the franchise of the Bank kept on progress in a very good momentum with rapid and harmonious growth in respect of size, asset quality and profit by implementing the annual operating program and following the target of 2003 decided by the 14th meeting of the 4th Session of Board of Directors. According to the Annual Auditors' Report, the total assets of the Bank reached RMB 259.99 billion, representing an increase of 36.08% from last year, with a profit of RMB 1.63 billion, upped 77.5%.

1. Business grew rapidly with asset quality improved

• Rapid growth of deposits with stable deposits increased

At the end of 2003, the Bank's outstanding deposits reached RMB207.65 billion, representing an increase of 42.8% over last year; apart from the factor of year end fluctuation, the stable deposits amounted to RMB180 billion, an increase of RMB60 billion from the previous year.

• Loans grew rapidly with loans distributions improved

As at Dec. 31, 2003, the Bank's outstanding loans were RMB156.94 billion, a growth of 41.5%. Credit sources of the Bank were used to support better regions, better industries and better customers which led to an improvement of loans distribution structure. The newly increased loans were mainly granted to the regions including Beijing, Shanghai, Guangzhou, Shenzhen, Hongzhou, etc. so far as regions were concerned. In addition, more loans were granted to some key industries of the state infrastructure with better asset quality including chemistry, telecommunication, transportation and electric power, etc.

• Fee business developed steadily

As of the year end, there were 3,120,000 debit cards issued, an increase of 38.1%; funds sales amounted RMB732 million, bonds settlement customers reached 111, agency for settlement of trust capital were RMB1.4 billion which led to a gross income of RMB216 million for the Bank in 2003, representing an increase of 47% over last year.

2. Size economy came into shape with profitability well improved

In 2003, the Bank's aggregated income reached RMB9.338 billion, a growth of 45.4% over the previous year; the total expenses were RMB7.704 billion, upped 40%, among which, the operating expense was RMB2.085 billion, representing an increase of 28.1% over last year. The total profit for the year was RMB1.633 billion, a year-on-year growth of 77.5%. The growth of operating expense was less than that of interests income, representing that a size economy came into shape gradually.

3. A further improvement on asset & liability management with a healthy balance sheet

As at Dec. 31, 2003, the Bank's capital adequacy ratio was 8.97%, upped

0.83% over last year; the outstanding loans of the top 10 clients accounted for 38.5% of the capital, and that of the top one accounted for 4.1%. The ratio of deposit and loan of RMB currency denominated was 69.7%, and that of foreign currencies denominated was 70.8%; and the ratio of RMB currency denominated reserve was 23.5% while that of foreign currencies denominated was 8.0%, the ratio of RMB currency denominated medium and long term loans was 64.5%, the ratio of overseas foreign exchange utilization reached 25.6%, and the ratio of short term liquidity was 61.8%. All these index met the requirements of the state regulators.

II. Strategic Investors introduced and subordinated bond issued successfully, public offering well prepared

1. Taking all aspects into consideration, the Bank introduced 3 foreign strategic investors for the sake of long-term development

Since the late 2002, the Bank started the work of capital increase and shareholding expansion and introduction of strategic investors in order to supplement capital for the purposes of business development, improve corporate governance and speed up building a first class modern commercial bank. After contacting numerous potential investors and experiencing more than one year painstaking negotiations, the Bank signed a Share Subscription Agreement with Hang Seng Bank, GIC Special Investment Pte Ltd. and International Finance Corporation respectively in Fuzhou on Dec. 17, 2003 with 2.7 billion shares subscribed, representing 25% of the total shares. This is a case with highest foreign investment in respect of amount, percentage, and shareholders. The key international media regarded this event as a landmark in respect of speeding up the opening of China's Banking industry.

In the process of negotiation, the Bank insisted on win-win policy, combining strategic investors introduction with the purpose of improving management and business development. For example, at the very beginning of negotiation, we targeted on business cooperation with strategic investors so as to make use of their advanced experiences and enriched technical resources in retail business to improve our core competitiveness in relevant field.

2. Subordinated Bond issued successfully

As of the year end, the Bank successfully issued RMB3 billion worth of subordinated bond in a way of private placement to qualified depositors with designated large amount deposits. This event helped to enlarge the channel of resupplying capital for the Bank and indicated that Industrial Bank was the first one to use new method to supplement capital shortly after China Banking Regulatory Commission issued *A Notice of Subordinated Bond Classified into Subsidiary Capital*.

3. Preparation for Public Offering

Starting from the end of June 2002, the Bank experienced one and half year guidance and assistance from Bank of China International. During this period, the Bank had a self inspection to its head office and branches to find and analyze all possible issues which would affect the public offering and adopted relevant

resolutions to resolve these issues in accordance with the requirements of People's Bank of China, China Banking Regulatory Commission and China Securities Regulatory Commission.

After the change of Board of Directors and the Supervisory Board, the Bank would meet the requirements of public offering in the aspects of corporate governance, business operation and legal affairs based on the assessment of the Bank's advisors for public offering.

III. Further improvement on corporate governance by amending the Articles of Association

1. Studying corporate governance proactively and amending the Articles of Association earnestly

The Bank amended its existing Articles of Association following the relevant requirements of capital introduction and public offering and the regulations of state laws and regulators. In addition, the Bank made amendments to the rules and regulations of the General shareholders Meeting, the Board of Directors and the Supervisory Board. The new Articles of Association was reviewed and approved unanimously by the 1st Session of General Shareholders Meeting 2004 (occasional). And this new Articles of Association was officially approved by China Banking Regulatory Commission (CBRC) on April 14, 2004 after several rounds of amendments to it required by CBRC.

2. Information disclosure improved by voluntarily having the Bank supervised by shareholders and the public

The Bank seriously carried out the regulations of ***Rules for Information Disclosure of Commercial Banks***, and prepared the annual report following the disclosure standards of listed company. After approved by the Board of Directors and the Supervisory Board, the annual report was sent to the regulators and disclosed to the public through various channels including the website of the Bank in April to ensure a timely disclosure of relevant information. Meanwhile, the Bank kept issuing ***News Report*** to shareholders, and visited the shareholders and investors irregularly to report operation and management information to shareholders which enriched information disclosure channels.

IV. Risk Factors

1. Credit risk

In 2003, the Bank improved its risk control over credit grant by analyzing and monitoring credit risk of certain regions, industries and products and providing guidance to credit control of some key industries with credit lines and percentages. The following highlights concerning risk control brought positive results to the Bank: (i) focused on monitoring group clients, affiliated enterprise and related parties, each of them were given integrated consideration in respect of credit facility; (ii) provided professional credit review and dynamic assessment with uniform standards to different industries; (iii) brought specialized operation of non-performing loans into

effect.

As of the year end, the outstanding NPL of the Bank were RMB3.90 billion according to Five-tier Classification, representing 2.49% of the total, a decrease of 0.62%.

2. Market risk

- Liquidity risk. In 2003, the Bank utilized market methodology to run its money and improve its liquidity. The Bank had a dynamic monitoring to market risk by applying deposit & loan ratio management linked up with the assessment of money price. In the meantime, the Bank explored new financing channels to enlarge various liabilities and thus stood the test of short money supply policy set forth by the central bank thanks to the prompt reaction, proper measures and strong liquidity of the Bank.

- Exchange rate risk. The Bank adhered to the prudent policy of the State in foreign exchange management. In principle, the Bank did not leave open position over night for foreign exchanges except for the settlement of foreign exchange required by the State, therefore, the Bank was free from exchange rate risk.

- Interest rate risk. The Bank strictly controlled interest rate risk by making significant efforts on interest rate trend forecast, timely adjusting asset-liability ratio and reducing the range of interest rate sensitivity. When the market interest rate fluctuated remarkably in the State money market, the Bank better controlled interest rate risk in all play including newly increased bonds by insisting on means of defense and operating in favored waves.

3. Operational risk

The Bank followed the operational mode of modern commercial banks and made unswerving efforts to upgrade its internal control system. No major risks from the inadequacies or mistakes of the internal procedures, personnel or systems of the Bank were noted in 2003. No material defects in the completeness, reasonableness and effectiveness concerning internal control rules and regulations were found.

- Completeness. The Bank established a complete framework for internal control, covering all business procedures and operational process for all departments and operating units. In 2003, the Bank revised and formulated many rules and regulations including Basic Accounting Standards, contract & agreement versions and many other management rules which helped to improve its operational standards.

- Reasonableness. In 2003, the Bank timely updated its systems concerning internal control and renovation methodologies based on the current changes of State policies and the specific outcome of internal control policy implementation. A balance between the cost of internal control and relative economic benefits was well established.

- Effectiveness. The Bank had conducted investigations, reviews and audit on all operations, taking strict measures to look into and penalize wrongful behaviors, therefore, the operational risks were well prevented. In 2003, the Bank strengthened its inspection and supervision on financial authorization, credit business and

accounting practices followed by an effective and continuous improvement of internal control including cost control and accounting settlement, etc.

V. Work Summary of the Board in 2003

1. The Convening of General Shareholders Meeting and the Execution of Relevant Resolutions

The resolutions of General shareholders Meeting were carried out seriously and the name of the Bank was changed successfully. According to the resolution of ***Revising the Articles of Association of Fujian Industrial Bank*** adopted in the previous annual General Shareholders Meeting, the Board engaged in the work of application for change of the Bank's name. With the approval of People's Bank of China, the registered name of the Bank changed to Industrial Bank Co., Ltd. from Fujian Industrial Bank Co., Ltd. All its 240 banking units started to use the new name and new version of visible identification system at the same time in March 3rd, 2003. Among its domestic peers, the Bank was the first one approved to cancel the word with regional implication in its name, which helped to promote the eminence and profile of the Bank, which was a landmark in the construction of a nationwide bank based on a regional bank.

The annual General Shareholders Meeting was convened seriously. The annual General Shareholders Meeting was held on June 28, 2003 with the following reports and proposals examined and resolved: Report of the Board of Directors of Industrial Bank, Co., Ltd. 2002, Report of the Supervisory Board of Industrial Bank Co., Ltd. 2002, Proposal on Financial Statement 2002 & Financial Budget (draft) 2003 of Industrial Bank Co., Ltd., Proposal for Profit Distribution of Industrial Bank Co., Ltd. 2002, and the Proposal for the Change of Certain Directors and Supervisors. The Bank distributed RMB1.1 Yuan dividend to each 10 common shares after appropriated statutory surplus reserve and reserve for welfare of employees from the profit after-taxes in accordance with the resolution adopted by the General Shareholders Meeting. The total dividends paid to all shareholders amounted to RMB330 million.

2. Faithful execution of responsibilities and earnest examination of strategic decisions

There were 9 meetings held by the Board of Directors in 2003, among which, 6 meetings were held via teleconferencing. Comparing with the past years, the Board meetings in 2003 had the following distinctive features including most number of times, most extensive coverage and most difficult for decision making. The contents of the meeting covered the following important issues: report of the President, proposal for distribution of profit, revision of Articles of association, capital increase and Shareholding expansion, introducing foreign strategic investors, employment and discharge of directors and discussion on the rules of directors candidate nomination for the 5th Board of directors. All these events exerted positive influences to the development of the Bank.

On March 6th, 2003, the 12th Session of the 4th Board of Directors was held in

Shanghai and resolved the following 4 proposals: Report of the President of Industrial Bank Co., Ltd. 2002, Report on the Work of Introducing Investment & Public Offering, Proposal of Increase Directors Candidates, Proposal for the Change of Certain Shareholders.

On June 27, the 16th Session(occasional) of the Board was held in Fuzhou listening to the event report of Shanghai Nongkai Group.

On December 12, the 20th Session(occasional) of the Board was held in Fuzhou to examine the Proposal of Revising the Articles of Association, Proposal of Capital Increase and Shareholding Expansion by Introducing Foreign Strategic Investors and submitted these proposals to the General Shareholders Meeting. In addition, the Nomination Way of Director Candidates and the proposal of convening 1st Sesseion of the General Shareholders Meeting 2004 were also examined in the meeting.

During early April to the first ten days of June 2003, as influenced by SARS, the 13th, 14th and 15th Sessions of the Board were held via teleconferencing and resolved the Annual Financial Report of the Bank, the Proposal of the Change of Certain Shareholders and the Proposal of Convening Annual General Shareholders Meeting. The Report of the Board of Directors, the Proposal of Profit Distribution, Proposal on Financial Statement 2002 & Financial Budget (draft) 2003 of Industrial Bank Co., Ltd. and the Proposal of Dismissing Mr. Zhou Zhengyi from his Directorship were resolved and submitted to the General Shareholders Meeting for approval.

In August and September, the 17th and 18th Sessions of the Board were held via teleconferencing with a Proposal of Transference of Certain Shares adopted.

In November, the 19th Session of the Board was held via teleconferencing with a Proposal of Issuing Large Amount Contracted Deposit Certificates adopted.

The 4th Board of Directors came into being since January 2001 by the election of the General Shareholders Meeting. During the three years tenure of office, the Board took development and management of the Bank into serious consideration in fulfilling its responsibilities and gained great achievements successively with the Articles of Association of the Bank revised, the name of the Bank changed, foreign strategic investors introduced and large amount subordinated bond issued successfully, and the public offering of the Bank was under well preparation. All these were of great significance to the development of the Bank.

Since January 2004, the members of the 4th Board of Directors kept on their work with due diligence to ensure the continuity and coherence of the Board work. For the past three years, the business of the Bank grew steadily with business size, quality and benefit improved hand in hand. As at the end of 2003, the total asset of the Bank were RMB259.99 billion, an increase of 203.7% over year 2000; the total profit reached RMB1.63 billion, up 251.9% from year 2000. According to the aging method, the non-performing loan ratio was 2.13%, a decrease of 5.24% over year 2000.

VI. Key work for 2004

In 2004, the Board will follow the spirits highlighted in the 3rd Session of 16th National Congress of Communist Party of China to strive to become a first-class modern commercial bank based on propelling public offering. The key work of the Board will be as follows:

1. To be creative and competitive, maintaining a steady, rapid and healthy development for the Bank

The Bank will be more creative in the strategic change of development mould and profit making ways by renovating its mechanism, adjusting its business structure and optimizing its distribution of resources to improve its risk control, operation quality and benefit in order to enhance its core competitiveness and maintain a steady, rapid and healthy development in accordance with the requirements of building a first-class modern commercial bank with a long-range subsistence.

The Board defined the target of the Bank as: to increase source of fundings by RMB72.41 billion, an increase of 31.5% over last year; to increase loans (including bills of exchange) by RMB42.65 billion, an increase of 26.1%; while controlling non-performing loan ratio (under the Five-tier Classification) below 2.35% and achieve a total profit of RMB2.01 billion, an increase of 23.21% over last year.

The Bank's financial budget for 2004 will be reported separately to the General Shareholders Meeting.

2. Further improvement on corporate governance

According to the regulations of the Articles of Association, the Bank will firstly amend the rules of the General Shareholders Meeting, Board of Directors and Supervisory Board to further improve their operation mechanism; secondly introduce independent directors and external supervisors to set up special committees under the two boards to rationalize their decision-making and supervision; and thirdly improve its information disclosure and finally set up a sound information disclosure system following the requirements of public listed banks.

3. Taking advantage of introducing foreign strategic investors, the Bank will draw lessons from the advanced experiences of international peers for their matured products innovation, risk management and information technologies to further improve its operation and management so as to enhance its market competitiveness in relevant fields and catch up with the international commercial banks.

4. Speeding up public offering

The Bank will make full use of the professional experience of the intermediary including its financial and legal advisors to improve its operation and management to create advantages for its public offering.

The Board will authorize the Chairman to make specific decisions concerning the program of public offering including offering way and listing venue in accordance with the particular situation of capital market and the approval of the State regulators. And the decisions will be carried out with the approval of the Board of Directors.

Year 2003 is a landmark in the history of the Bank. With the support of its shareholders and the devotion of its staff, the Bank has made great achievements in building a first-class modern commercial bank.

In the new year, based on the preparation for public offering, the Bank will keep on building a first-class modern commercial bank to bring forth a better return to reciprocate the deliberate care and support of all shareholders.

Report of Supervisory Board

I. Work Summary of the Board in 2003

1. Meetings of the Board

From April 3 to April 14, 2003, the 3rd Session of the 2nd Supervisory Board was held by communications due to the influence of SARS with “The Resolution of Financial Statements & Notes of Industrial Bank 2002” adopted.

Also affected by SARS, the Bank had to hold its 4th Session of the 2nd Supervisory Board by communications with “Report of the Supervisory Board of Industrial Bank Co., Ltd. 2002 ” and “Report on the Business Performance and Financial Statements of Industrial Bank Co., Ltd. 2002” adopted.

All members of the Board attended the General Shareholders Meeting held on June 28, 2003 and presented relevant reports. And the following resolutions were adopted in the meeting: “Report of Board of Directors of Industrial Bank Co., Ltd. 2002”, “Report on Financial Statements for 2002 & Financial Budget for 2003”, “A Proposal for Profit Distribution for 2002” and “A Resolution for the Change of Certain Directors”.

On Dec. 12, 2003, the 5th Session (Occasional) of the 2nd Supervisory Board was held in Fuzhou and the resolution of Formulating Regulations for Nominating Supervisor Candidates for 3rd Supervisory Board of Industrial Bank Co., Ltd. was adopted.

2. Lawful Supervision of the Board of Directors, Directors and Senior Management over their Fulfillment of Responsibilities

In 2003, all members of the Supervisory Board exercised their rights and duties by attending the General Shareholders Meeting as voting delegates and Board of Directors as non-voting delegates, studying and discussing all meeting topics, collecting rational opinions of the staff and presenting sound proposals to the Bank with many of them adopted in specific work. Meanwhile, the Supervisory Board oversaw the convening procedures of the meetings of the Board of Directors and the General Shareholders Meetings to ensure that all resolutions answer to the interests of most shareholders and the Bank. The Board also supervised the implementation of the resolutions of the General Shareholders Meeting.

The Supervisory Board had a direct communication mechanism with the Board of Directors and the senior management which helped to contact and communicate with directors and the members of senior management in daily work. Some of the supervisors representing the staff attended the conferences of senior management as non-voting delegate and provided their opinions to the reports regularly made by the senior management for the purpose of reporting to the regulators. By these means the Supervisory Board could know well and supervise the performance of the Bank and the senior management.

3. Careful review of the Bank's financial status

In 2003, the supervisors attended many financial conferences of the Bank to understand the status of assets and finance, and the communications and exchanges with the head of Financial Dept were well improved. The Supervisors fulfilled their responsibilities to oversee the cost control and accounting inspection which helped to improve financial management based on detailed inspection to the financial statements and careful analysis to the financial status.

4. Supervision to operation and management strengthened with asset quality and economic result improved

Those supervisors representing the staff took a seat in the Internal Control Committee, Asset & Liability Management Committee and Credit Review Council respectively. In 2003, the Supervisory Board instructed these committees to have special inspections done by the internal auditing departments focusing on asset quality, profit & loss and fund operation. In addition, the relevant functional departments of the head office also conducted regular inspections to the branches and sub-branches. All these helped to improve the performance, management and asset quality as well.

5. Taking part in the amendment of Articles of Association and helped to improve corporate governance

Since the preparation of introducing foreign investment and initial public offering began, the Bank started a work of amendment to the Articles of Association with the Chief Supervisor as the head of the Amendment Group(the Group). The Group got all messages of the regulatory requirements and combined the amendment with the practice of introducing foreign investment and initial public offering before they started the amendment. After experienced several rounds of drafting, a final draft was drawn up and adopted by the General Shareholders Meeting.

6. Backing up the work of introducing foreign strategic investors

The Bank started the work of Capital Increase and Shareholding Expansion by introducing strategic investors since the late half of 2002 in accordance with the resolution of the Board of Directors. With an effort of more than one year, the Bank signed a Share Subscription Agreement with three foreign strategic investors including Hang Seng Bank, GIC Special Investment Pte Ltd. and International Finance Corporation on Dec. 17, 2003.

The Supervisory Board paid close attention to the process of introducing foreign investment and timely grasp relevant information. And the Board members actively participated in the negotiations and discussion of issues concerned and offered constructive opinions and suggestions for the sake of safeguarding the interests of the Bank and Shareholders.

II. Independent opinions of the Supervisory Board

1. Operational review

In 2003, the Bank abided by relevant laws and regulations with rapid growth of asset and profit. At the end of 2003, the total assets of the Bank amounted to RMB259.99 billion, representing an increase of 36.08% over last year; the outstanding deposits reached RMB207.65 billion, upped 42.8%; the outstanding loans were RMB156.94 billion, upped 41.5%; and there were 3,120,000 debit cards issued, an increase of 38.1%. The profit of the Bank reached RMB1.633 billion, an increase of 77.5% over the previous year, and the net profit was RMB985 million, upped 106%.

After a close review, the Supervisory Board formed the following opinions:

In 2003, the Bank's activities were in conformity with the requirements of *the Company Law* of PRC, *the Law on Commercial Banks* of PRC and the Articles of Association of the Bank; its operation was a true and fair one; internal control was rational and effective; corporate governance was well improved; and its decision procedures made by the Board of Directors and senior management met the requirements of relevant laws and regulations.

2. Financial status and asset quality

The Annual Financial Reports had been audited by Fujian Hua Xing Certified Public Accountants Ltd. and Ernst & Young in accordance with the domestic and international auditing standards with Auditors' Reports issued without reservations.

After a careful review on the auditors' reports prepared by the above two independent accountants, the Supervisory Board recommended that the Financial Statements well reflected the performance and financial status of the Bank in a true, fair, complete and accurate manner. In 2003, a total gross income reached RMB 9.311 billion with a net profit of RMB1.633 billion realized. The Bank kept a rapid growth with asset quality well improved. According to the aging method, the NPL of the Bank was 2.13%, representing a decrease of 0.68%. Based on Five-tier classification, the NPL of the Bank was 2.49%, representing a decrease of 0.62%.

3. Utilization of the raised capital

On Dec. 30, 2003, the Bank issued RMB3 billion worth of subordinated bond. The funds were used to supplement capital and classified into subsidiary capital and would be used for the purposes of network expansion, e-banking construction, purchasing and constructing fixed asset.

4. Sales, acquisitions and mergers

During the reporting period, the Bank didn't involve in any sales, acquisitions and mergers of assets.

5. Related party transactions

The related party transactions of the Bank were involved in deposits and loans. The Supervisory Board recommended that the Bank strictly followed relevant requirement and procedures in handling related party transactions without any insider trading, or acts which were detrimental to the interests and rights of the Bank and shareholders. All the process of the related party transactions were fair and justice.

6. Internal Control

The Board recommended that the Bank focused on the work of formulating new rules, regulations and contract versions and amending the old ones to improve operational standards. All basic work of internal control including cost control, account settlement, safekeeping and law affairs were well improved which led to a sound and effective internal control. With a careful review of Fujian Hua Xing Certified Public Accountants Ltd., there were no material faults found in the respects of the completeness, rationality and effectiveness of internal control.

7. Implementation of the resolutions of the General Shareholders Meeting

There were five resolutions adopted by the annual General Shareholders Meeting on Jun. 28, 2003. According to *the Proposal of Profit Distribution of Industrial Bank 2002*, each share would be given a dividend of RMB0.11 based on the 3 billion total shares as of Dec. 31, 2002. And the Bank finished the work of distribution in time.

The Board did not hold any objections to the reports and proposals presented by the Board of Directors to the General Shareholders Meeting.

The Board recommended that the Board of Directors carefully carried out the resolutions adopted by the General Shareholders Meeting.

8. Duties executed by the Board of Directors and Senior Management

The Board recommended that the Board of Directors properly carried out the resolutions adopted by the General Shareholders Meeting, and the Chairman, Mr. Gao Jianping, fulfilled his duties by leading all directors to execute the decision making functions properly and industriously; to monitor and inspect the implementation of the resolutions of the Board of Directors; to overcome the difficulties brought forth by the events of SARS and Shanghai Nongkai Group; fulfilled the introduction of foreign strategic investors; completed the name change of the Bank and the amendment of the Articles of Association; and improved the corporate governance of the Bank. The President, Mr. Li Renjie, led other senior management of the Bank to carry out the resolutions of the Board of Directors actively, conducted operating activities efficiently, strengthened risk and accounting management, perfected the service network by centralized and professional operation based on the updated Core Business Handling System and Management Information System, and fulfilled the operating budget passed by the Board of Directors effectively.

After a careful review, the Board recommended that the directors and senior management were cautious, earnest and industrious in the operation and management of the Bank, and the leaders group of the Bank carried out the resolutions of the Board

of Directors seriously and garnered outstanding achievements, no detrimental events noted when the directors and senior management executed their duties, and the Board of Directors timely convened conferences and reported to the General Shareholders Meeting to depose certain individual directors who were unable to fulfill their responsibilities.

III. Plan for 2004

The Board will adhere to the following guidelines in 2004: to carry out the spirit highlighted in the 3rd Session of the 16th CPC National Congress, focus on development, improve the rules and regulations of the Board, explore new supervision moulds and methods, and help the Bank to develop in a sustained and healthy manner and safeguard the interests of shareholders. Details as follows:

1. To prepare for a new Supervisory Board. The new board will introduce external supervisors in accordance with the requirements of *A Guideline for Corporate Governance of Joint Stock Commercial Bank* and *A Guideline for Independent Directors and External Supervisors of Joint Stock Commercial Bank* set forth by the state regulators. The new board will bring the independent directors and external supervisors into full play to improve board member structure so as to enhance its independence.

2. To improve the constructions of system and organizational structure in order to safeguard the implementation of supervision functions of the Board. The Board will further improve its organizational structure to enhance its efficiency according to relevant requirements of the regulators and the Articles of Association of the Bank based on introducing strategic investors by establishing a Supervision Committee, a Nomination, Remuneration and Assessment Committee. In addition, an Executive Office will be set up with professional staff in charge of the daily work of the Board.

3. To standardize the operation of the Board to bring the sub-committees into full play. The Board will increase the frequencies of Board meeting following the requirements of the Articles of Association. In the meantime, it will formulate specific rules for its sub-committees to ensure that their duties could be better fulfilled.

4. To further improve internal control and supervision to the senior management. The Board will propose a system of job responsibility for the Board of Directors and the senior management to reinforce the consciousness of internal control to improve supervision and management. Meanwhile, the Board will arrange inspections to the operating activities so that the weak links of internal control can be found, relevant measures can be adopted and thus improvement of internal control, supervision and management can be achieved.

Key Disclosures

I. Lawsuits and Arbitrations

At the end of the reporting period, there were nine cases of lawsuits depending on judgement with the Bank as the prosecution amounting to RMB178,000,000, one case of lawsuit depending on judgement with the Bank as the defence amounting to RMB11,000,000.

II. During the reporting period, the Bank has not conducted any custody or contracted other corporate assets, nor has the Bank authorized any other company to conduct any custody or contract the assets of the Bank.

III. During the reporting period, the Bank has never entrusted others to conduct cash asset management for the Bank.

IV. During the reporting period, the Bank has no guarantee business required disclosure except those within the Business Scope approved by the relevant government regulators.

V. Others

1. On Dec. 17, 2003, the Bank signed a Share Subscription Agreement with Hang Seng Bank, GIC Special Investment Pte Ltd (Singapore base) and International Finance Corporation respectively in Fuzhou, Fujian, the People's Republic of China. According to the Agreement, 999,000,000 new shares would be issued to the aforementioned three foreign investors, representing 24.98% of the total shares after the issuance, and the three investors subscribed 15.98%, 5% and 4% respectively.
2. On Dec. 30, 2003, the Bank issued RMB3 billion worth of subordinated bonds with the approval of China Banking Regulatory Commission.

Risk Management

1. Key Regulatory Index over the Past 3 Years as of the End of the Reporting Period

unit : %			
Items	2003	2002	2001
Capital Adequacy	8.97	8.14	9.49
Non-performing Loan Ratio (Aging method)	2.13	2.81	4.14
Non-performing Loan Ratio (Five-tier classification)	2.49	3.11	4.51
Liquidity ratio for Short Term Asset:			
domestic currency	46.98	43.94	58.83
foreign currency	61.83	60.32	62.17
Borrowing Ratio: domestic currency	0.60	0.39	0.00
Lending Ratio: domestic currency	0.97	2.62	5.48
Ratio of Mid and Long Term Loans:			
domestic currency	64.54	98.15	113.05
foreign currency	27.48	26.16	26.05
Loan Ratio of the Top Individual Client	4.11	15.26	16.30
Loan Ratio of the Top 10 Clients	38.49	75.15	91.90

2. Loan Distribution by Geographic Regions and Industries

unit: RMB100 million		
Region	Amount	Percentage(%)
Fujian	322.98	20.58
Guangdong	280.08	17.85
Shanghai	237.57	15.14
Zhejiang	182.10	11.60
Beijing	145.74	9.29
others	400.99	25.54
Total	1569.45	100

unit: RMB100 million		
Industry	Amount	Percentage (%)
Manufacturing	364.53	23.23
Real estates	215.65	13.74
Trading	134.41	8.56
Transportation	117.10	7.46
Construction	63.02	4.02
Communications and services	34.11	2.17
Discounted Bills	129.92	8.28
Others	510.72	32.54

Total	1569.45	100
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3. The Loans of the Top 10 Clients

unit: RMB100 million

Client	Loan outstanding	Percentage (%)
Huaxin Investment (Group) Co., Ltd.	5.12	0.33
Zhejiang Hualian Sunshine Petro-chemical Co., Ltd.	4.83	0.31
ShenHua Group Corporation	4.75	0.30
China Petrochemical Corporation	4.75	0.30
Jiangsu Electric Power Company	4.75	0.30
Fuzhou Communication construction Development Corporation	4.75	0.30
Jia Xing Zhajiasu Expressway Co., Ltd.	4.75	0.30
The Expressway Operation & Administration Center Of Jiangsu Province	4.75	0.30
Xiaoshan Land Reserve Center of Hangzhou	4.75	0.30
Jiangsu Jinghu Expressway Co., Ltd.	4.75	0.30
Total Loans of the Bank	1569.45	100

4. Five-tier Classification of Credit Assets

unit: RMB100 million

	2003	Percentage(%)	2002	Percentage(%)
Pass	1487.63	94.79	1041.78	93.94
Special Mentioned	42.80	2.73	32.62	2.94
Sub-standard	11.27	0.72	13.68	1.23
Doubtful	17.42	1.11	12.27	1.11
Loss	10.33	0.66	8.58	0.77
Total	1569.45	100	1108.93	100

5. Provision for Bad Loans

unit: RMB100 million

Item	Amount
Opening balance	12.44
Provisions charged for the year	11.90
Recoveries	0.03
Write off for the year	0.86
Closing balance	23.51

6. Key Items Off-balance Sheet

unit: RMB100 million

Item	Outstanding Amount
Banker's Acceptance Draft	422.32

Letters of Guarantee	23.35
Letters of Credit	53.62
Designated Loans	20.49
Interest Receivable off Balance Sheet	15.18

7. Risk Management of Facilities Granting to Conglomerates

The Bank has drawn up lots of rule and regulations and manuals for the sake of strengthening risk management in accordance with the requirements of *A Guide to the Risk Management of Facility Granting to Conglomerates* issued by China Banking Regulatory Commission. The Bank granted facilities to its clients based on the principles of uniform, appropriate, selective and early warning to standardize the operation. When selecting a conglomerate to be the entity of granting facility, the Bank required that the enterprise selected should have assets with true value and the relevant project should have stable cash flow so that the Bank can ratify a credit line according to the extent of risk and how much the Bank can undertake the risk and avoid multi-granting and excessive granting surpassing the debt paying ability of the conglomerate. Besides, the Bank paid attention to information collection concerning the operation of the conglomerate, affiliates and the changes of risk status and emphasized on the risk monitoring, early warning and reporting. The Bank regularly published inter-regional loans of the conglomerates, enterprises with possible material risks (whether they had credit relation with the Bank or not), and the list of clients with bad reputation or prohibited by the State so as to have an effective control over the clients with risks or possible risks.

8. Key Policies and Measurements to Non-performing Loans (NPL)

The Bank insisted on the principles of “classified guidance, prior monitoring, standard management, active recovery, strict assessment and combining performance with efficiency” in dealing with NPL. The head office would take part in the work of its branches and sub branches concerning asset safety assurance, recovery and risk elimination by taking the approaches including debt restructuring, debt offsetting, lawsuit and enforcement. The Bank also searched for new method of risk management by introducing social intermediary participation. In 2003, most of the branches with NPL had set up a professional NPL Management Department with specific duty personnel and separate accounting which achieved a good result by “confirming responsibilities, locking risks, conducting professional operation with incentive mechanism” in disposal and management of NPL and other special assets.

9. Related Parties Transactions

At the End of the Reporting Period, the Transactions of the Top 12 Shareholders

unit: RMB1000

Company	Closing balance		
	Loan	Banker's acceptance draft	Others
Fujian Energy Source Investment Co., Ltd.	366,670	-	-
UDC Development & Investment Co., Ltd.	624,035	3,843	48,962
Oriental International (Holding) Co., Ltd.	129,807	-	165,703
Sanshui Jianlibao Health Industry Investment Co., Ltd.	<u>190,000</u>	<u>-</u>	<u>-</u>
Total	<u>1,310,512</u>	<u>3,843</u>	<u>214,665</u>

10. Non-performing Loan of the Related Parties Transactions (RPT)

According to the Five-tier Classification, the NPL of the related parties transactions amounted to RMB84,000,000, representing 2.15% of the total NPL(RMB3.901 billion) and 1.98% of the total RPT (RMB4.246 billion). The NPL ratio of related parties is lower than that of the total loans. Details as follows:

Unit: 10,000

Shareholder and related party	Holding shares	NPL	Secured by	Risk Classification	Reasons
Fujian Jiuzhou Group Co., Ltd.	220.79	1970	other company	sub-standard	Bad Management, scattered investment and severe loss.
		2449.65	other company	doubtful	Now Xiamen Xiangyu Group took over its management
Zhangzhou Brewery Co., Ltd. of Fujian Jiuzhou Group		371	other company	loss	An affiliate of Fujian Jiuzhou Group Co., Ltd., bad running, kept on loss, operation stopped, all operational assets have been transferred to Tsingtao Brewery.
Fujian Jiuzhou Nanping Electrical Machinery Plant		830	other company	doubtful	An affiliate of Fujian Jiuzhou Group Co., Ltd. , Result of SOE reform, operating normally, suffered from heavy burden and involved in some lawsuit, weak liquidity

Fujian Jiuzhou Group Real Estate Development Company		42.89	other company	doubtful	An affiliate of Fujian Jiuzhou Group Co., Ltd. , Advances of L/C, operation stopped, no effective assets to pay its debt
Fujian Jiuzhou Group Co., Ltd. Putian Branch		30	other company	doubtful	An affiliate of Fujian Jiuzhou Group Co., Ltd. , Operaton stopped.
Putian Jiuzhou Trade Co., Ltd.		80	other company	doubtful	An affiliate of Fujian Jiuzhou Group Co., Ltd. , Operation stopped
Longhai China Food & Foodstuff Co., Ltd.	133.33	480	pledge	doubtful	The borrower's huge indebtedness surpassed its asset, its legal representative escaped and can not be found up to now.
		1253.72	other company	loss	
Longhai Yinri Packing Co., Ltd.		249.19	other company , common use equipment	loss	An affiliate of. Longhai Yinri Packing Co., Ltd. , Operation stopped, its legal representative escaped and can not be found up to now.
Zhangzhou Jinli Computers Co., Ltd.	126.08	540	other company , pledge	sub-standard	The borrower operates normally with rather high amount of contingent debt, weak liquidity.
Zhangzhou Wool Spinning & Printing Plant	110.40	114	mortgage	sub-standard	The borrower is an SOE, bad management, preparing bankruptcy.
Total	590.60	8410.45			

Major Events in 2003

March 3	The Bank officially changed its name to “Industrial Bank Co., Ltd.” (for short: Industrial Bank).
March 13	The Bank’s e-banking was approved by the People’s Bank of China.
April	Industrial Bank Tianjin Branch and Chengdu Branch officially opened.
July	According to The Bankers (a British Magazine), the Bank was ranked No. 273 among the top 1000 banks of the world (upped from last year’s No. 333) in respect of total asset; and No. 400 in regarding first tier capital (different from the previous year’s No. 410).
August 10	The Updated Core Business Settlement System was set up to use successfully.
November 3	The Financial Market of the Bank was founded and officially started operation in Shanghai.
December 17	The Bank signed a Share Subscription Agreement with Hang Seng Bank, GIC Special Investment Pte Ltd. and International Finance Corporation respectively in Fuzhou. Governor of Fujian Province Mr. Lu Zhangong, Managing Vice Governor Mr. Huang Xiaojing and Vice Governor Mr. Chen Yun presented the Signing Ceremony.
December 30	The Bank issued RMB3 billion worth of subordinated bond successfully with the approval of China Banking Regulatory Commission.
December 31	Governor of Fujian Province Mr. Lu Zhangong and Vice Governor Mr. Chen Yun paid an inspection visit to the Bank.

Organizational structure



Network Information

Head Office

Add : 154 Hudong Road, Fuzhou, Fujian, PRC

Post code: 350003

Tel : (86) 591-7839338 (the Exchange)

Fax : (86) 591-7841932

Http://www.cib.com.cn

Beijing Branch

Add : No.11, 3th Block, Anzhen Xili, Chaoyan District, Beijing, PRC

Post code: 100029

Tel : (86) 10-64429988 (the Exchange)

Fax : (86) 10-88392519

Guangzhou Branch

Add : Jinan Plaza, 300 Dongfengzhong Road, Guangzhou, Guangdong, PRC

Post code: 510030

Tel : (86) 20-87639939 (the Exchange)

Fax : (86) 20-83637676

Hangzhou Branch

Add : 286 Yan'an Road, Hangzhou, Zhejiang, PRC

Post code: 310006

Tel : (86) 571-87037999 (the Exchange)

Fax : (86) 571-87923988

Shenzhen Branch

Add : Industrial Bank Building, 4013 Shennan Road, Futian District, Shenzhen, PRC

Post code: 518026

Tel : (86) 755-82980900

Fax : (86) 755-83026510

Shanghai Branch

Add : 168 Jiangning Road, Shanghai, PRC

Post code: 200041

Tel : (86) 21-62677777 (the Exchange)

Fax : (86) 21-62679777

Fuzhou Branch

Add : Yuanhong Plaza, 32 Wuyizhong Road, Fuzhou, Fujian, PRC

Post code: 350005

Tel : (86) 591-3310369 (the Exchange)

Fax : (86) 591-3332347

Jinan Branch

Add : Keyuan Square, 71 Jingshi Road, Jinan, Shandong, PRC

Post code: 250061

Tel : (86) 531-3198777 (the Exchange)

Fax : (86) 531-2619609

Shenyang Branch

Add : Cereals Plaza, 36 Shiyiwei Road, Heping District, Shenyang, Liaoning, PRC

Post code: 110003

Tel : (86) 24-62250616

Fax : (86) 24-22711011

Wuhan Branch

Add : Changyuan Plaza, 156 Zhongbei Road, Wuchang, Wuhan, Hubei, PRC

Post code: 430077

Tel : (86) 27-86781169 (the Exchange)

Fax : (86) 27-50807080

Nanjing Branch

Add : 63 Zhujiang Road, Nanjing, Jiangsu, PRC

Post code: 210008

Tel : (86) 25-3193666 (the Exchange)

Fax : (86) 25-3193600

Chongqing Branch

Add : Tower B, Hejing Building, 108 Minzu Road, Yuzhong District, Chongqing, PRC

Post code: 400013

Tel : (86) 23-63529888 (the Exchange)

Fax : (86) 23-63736800

Tianjin Branch

Add : Senmiao Business Square, Wujiayao Street, Hexi District, Tianjin, PRC

Post code: 300074

Tel : (86) 22-23336666 (the Exchange)

Fax : (86) 22-23558066

Chengdu Branch

Add : Sichuan International Plaza, 101 Tidu Street, Chengdu, Sichuan, PRC

Post code: 610016

Tel : (86) 28-82994999 (the Exchange)

Fax : (86) 28-86521312

Ningbo Branch

Add : 676 Zhongxing Road, Ningbo, Zhejiang, PRC

Post code: 315040

Tel : (86) 574-87733333 (the Exchange)

Fax : (86) 574-87700611

Xiamen Branch

Add : 78 Hubin North Road, Xiamen, Fujian, PRC

Post code: 361012

Tel : (86) 592-5312555 (the Exchange)

Fax : (86) 592-5312375

Quanzhou Branch

Add : Fengze Street, Quanzhou, Fujian, PRC

Post code: 362000

Tel : (86) 595-2150780 (the Exchange)

Fax : (86) 595-2107281

Changsha Branch

Add : 84 Laodong West Road, Changsha, Hunan, PRC

Post code: 410007

Tel : (86) 731-5557318 (the Exchange)

Fax : (86) 731-5526441

Zhangzhou Branch

Add : Longmen Plaza, Shengli West Road, Zhangzhou, Fujian, PRC

Post code: 363000

Tel : (86) 596-2055570 (the Exchange)

Fax : (86) 596-2028626

Longyan Branch

Add : 46 Jiuyi South Road, Longyan, Fujian, PRC

Post code: 364000

Tel : (86) 597-2106086 (the Exchange)

Fax : (86) 597-2296377

Putian Branch

Add : 22 Xueyuan South Road, Chengxiang District, Putian, Fujian, PRC

Post code: 351100

Tel : (86) 594-2339033 (the Exchange)

Fax : (86) 594-2280719

Nanping Branch

Add : 399 Binjiang Middle Road, Nanping, Fujian, PRC

Post code: 353000

Tel : (86) 599-8827555 (the Exchange)

Fax : (86) 599-8850026

Ningde Branch

Add : 11 Jiaocheng South Road, Ningde, Fujian, PRC

Post code: 352100

Tel : (86) 593-2078888 (the Exchange)

Fax : (86) 593-2821207

Sanming Branch

Add : 1 Liedong Street, Meilie District, Sanming, Fujian, PRC

Post code: 365000

Tel : (86) 598-8298880

Fax : (86) 598-8241862

Beijing Representative Office

Add : Shenzhen Plaza, 1 Guangwai Street, Xuanwu District, Beijing, PRC

Post code: 100055

Tel : (86) 10-63271188 (the Exchange)

Fax : (86) 10-63262934



福建华兴有限责任会计师事务所

Fujian Huaxing Certified Public Accountants Ltd

地址: 福建省福州市湖东路152号中山大厦B座七-九楼 电话(Tel): 0591-7852574 传真(Fax): 0591-7840354
Add: 7-9/F Block B, 152 Hedong Road, Fuzhou, Fujian, China Http://www.fjhxcpa.com 邮政编码(Postcode): 350003

AUDITORS' REPORT

FJHXCPA (2004) AUDIT G-017

To the Shareholders of Industrial Bank Co., Ltd.:

We have audited the accompanying balance sheet of Industrial Bank Co., Ltd. (the "Company") as at 31 December 2003, and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Independent Auditing Standards of the People's Republic of China. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.



福建华兴有限责任会计师事务所

Fujian Huaxing Certified Public Accountants Ltd

地址: 福建省福州市湖东路152号中山大厦B座七-九楼 电话(Tel): 0591-7852574 传真(Fax): 0591-7840354
Add: 7-9/F Block B, 152 Hudong Road, Fuzhou, Fujian, China Http://www.fjhxcpa.com 邮政编码(Postcode): 350003

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2003 and of the results of the Company's operations and its cash flows for the year then ended in accordance with the Accounting Regulations for Financial Institutions (unrevised) and the Finance Regulations for Financial Institutions and Insurance Companies.

Fujian Huaxing
Certified Public Accountants Ltd.
Fuzhou, Fujian, P. R. C



(signature)

Certified Public Accountant:

(signature)

Certified Public Accountant:

March 5, 2004

Financial Report

Balance Sheet

As at 31 December, 2003

Industrial Bank Co., Ltd.

Unit:RMB

Assets	NoteIV	2003	2002
Current Assets:			
Cash on hand and in bank	1	797,019,763.95	653,273,961.01
Scarce metal			
Due from the central bank	2	46,465,664,283.02	26,235,338,394.82
Due from banks and other financial institutions	3	8,515,095,530.39	6,754,718,706.36
Inter-bank balance			
Internal funds transfer balance			
Inter-bank placements	4	316,553,400.00	1,505,161,700.00
Placements with non-bank financial institutions	5	1,686,014,580.00	2,348,025,020.00
Short-term loans	6	99,581,305,581.43	65,468,829,603.44
Import & export advance and negotiation	7	932,045,276.27	673,484,296.68
L/C negotiations			
Interests receivable	8	334,883,963.37	548,496,301.97
Other receivables	9	248,410,800.87	148,967,952.03
Less:Provision for bad debts	10	31,688,573.76	39,327,227.75
Discounted bills	11	12,991,988,684.77	16,931,004,086.86
Short-term investments	12	7,135,726,700.54	1,346,296,240.78
Designated loans and investments			
Reverse repurchase agreements-securities	13	768,495,000.00	11,980,000,000.00
Reverse repurchase agreements-bills	14	10,425,505,217.63	1,436,613,074.67
Deferred expenses	15	19,544,637.94	3,920,228.95
Long-term bonds investments maturing within 1 year	16	1,945,857,859.78	2,169,552,388.41
Other long-term investments maturing within 1 year			
Other current assets	17		

		3,637,600,000.00	13,608.14
Total current assets		195,770,022,706.20	138,164,368,336.37
Non-current assets:			
Long and mid-term loans	18	39,423,275,893.80	24,706,990,680.32
Overdue loans	19	104,157,806.21	211,669,408.53
Non-accrual loans	20	3,912,562,497.48	2,901,485,575.31
Less:Provision for bad loans	21	2,350,626,347.04	1,243,500,292.23
Long-term investments in bonds	22	19,457,982,888.26	23,472,389,427.18
Long-term equity investments	23	50,000,000.00	57,000,000.00
Long-term investments-net book value		19,507,982,888.26	23,529,389,427.18
Fixed assets-cost	24	3,246,737,656.91	2,627,997,793.88
Less:Accumulated depreciation	24	614,091,560.66	493,131,951.52
Fixed assets		2,632,646,096.25	2,134,865,842.36
Less:Allowance for impairment of fixed assets			
Fixed assets-net book value		2,632,646,096.25	2,134,865,842.36
Construction in progress	25	69,858,881.23	194,426,167.75
Disposal of fixed assets			
Loss of fixed assets to be approved			
Total Non-current Assets		63,299,857,716.19	52,435,326,809.22
Intangible, Deferred and Other Assets:			
Intangible assets	26	31,997,552.25	7,022,649.25
Long-term deferred expenses (deferred assets)	27	255,122,528.55	196,117,267.40
Assets possessed from insolvent debtors pending disposal	28	642,046,174.97	260,456,014.85
Other long-term assets			
Total Intangible, Deferred and Other Assets		929,166,255.77	463,595,931.50
Deferred Tax:			
Deferred tax debits			

Total Assets		259,999,046,678.16	191,063,291,077.09
Liabilities and Shareholders' Epuity	Note IV	2003	2002
Current Liabilities:			
Short-term deposit	29	95,018,303,086.57	76,522,100,173.57
Short-term saving deposit	30	7,282,134,095.13	6,890,774,061.52
Financial deposit		212,109,022.60	161,108,351.95
Due to the central bank	31	300,000,000.00	
Due to banks and other financial institutions	32	28,330,086,570.93	17,518,971,970.21
Intra-bank balance			
Internal funds transfer balance			
Inter-bank borrowings	33	1,200,000,000.00	520,000,000.00
Repurchase agreements-securities	34	4,125,178,032.56	3,150,000,000.00
Repurchase agreements-bills	35	4,253,406,056.16	13,427,378,953.74
Outward remittances		867,130,637.73	551,418,274.36
Inward remittances & Temporary deposit		343,168,216.34	2,310,279,612.83
Designated deposit			
Short-term guarantee deposit	36	4,266,098,032.12	14,187,249,058.75
Interest payable	37	530,995,687.32	404,163,314.27
Payroll payable		277,984,288.59	208,848,675.15
Stall welfare payable		142,011,485.98	133,027,968.89
Taxes payable	38	522,609,068.43	302,675,999.01
Other taxes payable	39	20,962,028.39	23,256,191.36
Dividends payable (Profits payable)	40	67,496,616.07	117,249,662.10
Other payables	41	744,286,631.83	333,032,550.46
Accrued expenses			
Deferred gains and income			
Short-term bills and bonds issued			
Long-term liabilities due within 1			

year			
Other current liabilities (other liabilities)	42	1,835,000,000.00	3,115,000,000.00
Total Current Liabilities		150,338,959,556.75	139,876,534,818.17
Long-term Liabilities:			
Long-term deposit	43	68,653,658,996.21	37,065,869,033.07
Long-term saving deposit	44	9,867,251,979.90	7,149,774,976.57
Long-term guarantee deposit	45	21,140,263,435.66	626,745,970.92
The subordinated bonds	46	3,000,000,000.00	
Long-term bonds issued			
Long-term payable			
Other long-term liabilities			
Total Long-term Liabilities		102,661,174,411.77	44,842,389,980.56
Deferred Tax:			
Deferred tax credits			
Total liabilities		253,000,133,968.52	184,718,924,798.73
Shareholders' Epuity:			
Paid-in capital	47	3,000,000,000.00	3,000,000,000.00
Capital reserve	48	1,140,913,986.58	1,140,913,986.58
Surplus reserve	49	1,536,223,412.91	1,388,541,448.22
Includeing:Reserve for welfare of employees		269,823,628.69	220,596,307.13
Retained earnings	50	1,321,775,310.15	814,910,843.56
Total Shareholders' Equity		6,998,912,709.64	6,344,366,278.36
Total Liabilities and Shareholders' Equity		259,999,046,678.16	191,063,291,077.09

Income Statement & Statement of Profit Appropriation and Distribution

For the year 2003

Industrial Bank Co., Ltd.

Unit:RMB

Item	NoteIV	2003	2002
I、 Operating Revenue	51	9,310,670,359.67	6,400,617,441.59
Interest income		7,079,952,474.37	4,445,109,287.32
Interest income from financial institutions		1,124,759,415.94	791,102,184.53
Service fee and commissions		149,956,196.97	72,767,893.60
Exchange gains		51,434,822.73	43,538,593.92
Income from investments	52	889,588,824.01	1,016,832,869.08
Other operating income		14,978,625.65	31,266,613.14
II、 Operating Expenses		7,281,552,069.06	5,176,052,644.86
Interest expenses		2,569,037,791.77	1,413,683,978.62
Interest expenses with financial institutions		1,405,073,368.10	1,113,406,012.10
Service fee and commissions		26,478,607.13	15,704,188.82
General & administrative expenses		2,084,549,040.08	1,627,437,119.60
Exchange losses		193,685.36	1,888,084.62
Other operating expenses		1,196,219,576.62	1,003,933,261.10
III、 Business Taxes and Surcharges	53	405,686,889.00	310,731,776.94
IV、 Operating Profit		1,623,431,401.61	913,833,019.79
Add:Non-operating income	54	26,911,448.80	22,399,099.88
Less:Non-operating expense	55	16,974,319.13	16,033,373.97
V、 Profit before Tax		1,633,368,531.28	920,198,745.70

Less:Income tax		648,822,100.00	443,663,954.68
VI、 Profit after Tax		984,546,431.28	476,534,791.02
Add:Retained earnings brought forward		814,910,843.56	409,856,271.19
Transferred-in from reserves			
VII、 Profit Available for Distribution		1,799,457,274.84	886,391,062.21
Less:Appropriations to statutory surplus reserves		98,454,643.13	47,653,479.10
Appropriations to statutory surplus reserve for welfare of staff		49,227,321.56	23,826,739.55
VIII、 Profit Available for Distribution to Shareholders		1,651,775,310.15	814,910,843.56
Less:Dividends declared on preferred stock			
Appropriations to discretionary reserves			
Dividends declared on common stock		330,000,000.00	
Transferred to dicretionary surplus reserve			
IX、 Undistributed Porfit		1,321,775,310.15	814,910,843.56

Statement of Cash Flow

For the year 2003

Industrial Bank Co., Ltd.

Unit:RMB

Item	Amount
Cash flow from operating activities	
Cash flow from operating activities reflected in Income Statement	
Cash received from interest on loans	7,233,819,770.80
Cash received from interest income from financial institutions	1,124,904,641.88
Cash received from service fee and commissions	149,956,196.97
Cash received from income on investments in bonds of operating nature	81,786,488.99
Cash received from exchange gains, net	51,241,137.37
Cash received from non-operating activities, net	6,852,762.07
Cash received from other operating income	8,489,671.92
Sub-total of cash inflows	8,657,050,670.00
Cash paid for interest on deposit	2,447,241,441.86
Cash paid for interest to financial institutions	1,400,037,344.96
Cash paid for service charges	26,478,607.13
Cash paid to and for staff	739,014,127.75
Cash paid for other general and administrative expenses	1,021,769,640.52
Cash paid for business tax and surcharges	396,300,319.35
Income tax paid	443,849,242.66
Sub-total of cash outflows	6,474,690,724.23
Net cash flows from operating activities reflected in Income Statement	2,182,359,945.77
Cash flows from movements of liabilities of operating nature	
Due to central bank	300,000,000.00
Due to banks	10,811,114,600.72
Borrowings with banks and other financial institutions	680,000,000.00
Repurchase agreements-securities	975,178,032.56
Repurchase agreements-bills	-9,173,972,897.58
Deposit	53,243,830,583.73
Guarantee deposit	10,592,366,438.11
Designated deposit	
Other liabilities	-2,931,399,033.11
Other payables and temporary deposits	217,241,397.52
Sub-total of movements of liabilities of operating nature	64,714,359,121.95
Cash flows from movements of assets of operating nature	
Due from central bank	-4,745,102,648.96
Due from banks	-1,435,662,264.25
Placements with banks and other financial institutions	95,457,020.00
loans	-50,471,828,788.12
Discounted bills	3,939,015,402.09
Import & export advances and negotiations	-258,560,979.59

Recovery of overdue loans written off and interest received	3,040,404.47
Bond investments of operating nature	-5,792,722,985.77
Reverse repurchase agreements-securities	11,211,505,000.00
Reverse repurchase agreements-bills	-8,988,892,142.96
Long-term deferred expenses	-79,961,212.13
Other assets	-3,637,586,391.86
Other receivables and advances	-108,737,928.84
Sub-total of movements of assets of operating nature	-60,270,037,515.92
Net cash flows from working capital movements	4,444,321,606.03
Net cash flows from operating activities	6,626,681,551.80
Cash flows from investing activities	
Cash received from recovery of investments	
Cash received from income on investment in bonds of investing nature	870,522,860.44
Cash received from decrease of investments in bonds of investing nature	11,212,780,780.53
Cash received from distribution of dividends or profits	
Cash received from disposal of fixed assets,intangible assets and other long-term assets	49,104,367.61
Sub-total of cash flows	12,132,408,008.58
Cash paid for increase of investments in bonds of investing nature	6,981,092,948.18
Cash paid to acquire fixed assets, intangible assets and othe long-term assets	393,648,706.56
Cash paid to acquire equity investments	
Sub-total of cash outflows	7,374,741,654.74
Net cash flows from investing activities	4,757,666,353.84
Cash flows from financing activities	
Proceeds from issuing stocks	
Proceeds from issuing bonds	3,000,000,000.00
Sub-total cash inflows	3,000,000,000.00
Cash paid for repayment of bond issued	
Cash payments of interest expenses for issued bonds	
Cash payments for distribution of dividends or profits	185,826,023.68
Sub-total of cash outflows	185,826,023.68
Net cash flows from financing activities	2,814,173,976.32
Effect of foreign exchange rates changes on cash	
Net increase in cash and cash equivalents	14,198,521,881.96

Statement of Cash Flow

For the year 2003

Industrial Bank Co., Ltd.

Unit:RMB

Supplementary Information	Amount
Item	
Investing and financing activities that do not involve cash receipts and payments	
Repayment of debts by transfer of fixed assets	
Investments made with fixed assets	
Investing and financing activities that do not involve cash receipts and payments	
Reconciliation of profit before tax to cash flows from operating activities	
Profit after tax	984,546,431.28
Add:Bad debt provision	-1,804,761.83
Bad loan provision	1,189,898,474.87
Allowance for impairment in value of long-term investments	
Depreciation of fixed assets	158,190,461.94
Amortization of intangible assets,deferred assets and other assets	87,455,679.34
Losses on disposal of intangible assets,deferred assets and other assets	-1,447,457.75
Losses arising from investments (or deduct:gains)	-807,802,335.02
Foreign exchange gain or loss on investing and financing activities	
Deferred tax credit (or deduct:debit)	
Increase in payable of operating nature (or deduct:decrease)	422,590,410.03
Decrease in receivable of operating nature(or deduct:increase)	154,012,522.37
Others	-3,279,479.46
Net cash flows from operating activities	2,182,359,945.77
Net increase in cash and cash equivalents	
Ending balance of cash and cash equivalents	44,917,690,234.46
Less:beginning balance of cash and cash equivalents	30,719,168,352.50
Net increase in cash and cash equivalents	14,198,521,881.96

Notes to the Financial Statement

(Unit: RMB in thousands)

I. Introduction

1. Background

Industrial Bank Co., Ltd. (the Company) is a joint-stock commercial bank approved by People's Bank of China (PBOC) with the document [YF (1998) NO.347] issued on 20 July, 1988. This is in accordance with the *"Instructions by Fujian Province for Deepening Reformation, Widening opening and Expediting the Development of Outward-oriented Economy"* [GH(1998) NO.58] issued by the State Council. The Company obtained its business license (MDZ NO.136) on 22 August, 1988 from Fujian Provincial Administration of Industry and Commerce and the license was renewed on 16 July, 2001. The registration number of the Company is 3500010002021/1 and the license number for carrying out financial activities is YGZ NO.B11313900001. The legal representative of the Company is Mr. Gao Jianping. The Company has a registered capital of RMB 3 billion which had been verified by Fujian Huaxing Certified Public Accountants Ltd with a verification report referenced "MHXS(2000)GYZ NO.26". The Company had changed its registered name from "Fujian Industrial Bank Co., Ltd" to "Industrial Bank Co., Ltd" on 25 December, 2002 with the approval document [YF(2002)NO.361] issued by the PBOC.

2. The industry and scope of the company

Industry: Finance;

Scope of business: Commercial banking activities approved by PBOC.

3. Principal activities and services provided

Accepting public deposits; granting short, mid and long-term loans; payment and settlement services; bills discounting services; issuing financial debentures; agency services in issuing, funding and underwriting government bonds; placements and borrowings from banks and other financial institutions; services related to letter of credit and guarantee facilities; factoring and assignment of receivables and payments; agency sales services for insurance; safe-box custodian; accepting foreign currencies deposits; foreign currencies lendings; remittance of foreign currencies; borrowings in foreign currencies; issuing of foreign currency securities (except stocks) on its own behalf or on behalf of clients; bill acceptance and discounting facilities in foreign currency; proprietary trading and agency trading of foreign securities excluding stocks; proprietary trading and agency trading of foreign currency;

exchange of foreign currencies; foreign currency guarantees; settlement of trade and non-trade nature; credit reference, consultation and certification services; and other services approved by the PBOC.

II. Principal Accounting Policies and Accounting Estimates

1. Applicable financial regulation and accounting standard

Financial regulation: “*Finance Regulations for Financial Institutions and Insurance Companies*” and related supplementary rules;

Accounting standard: “*Accounting Regulations for Financial Institutions (unrevised)*” and related supplementary rules.

2. Accounting year: 1 January to 31 December of each calendar year.

3. Renminbi is the reporting currency. Separate books and records are prepared for foreign currency transactions in original currencies.

4. The Company’s books and records are accounted for on accrual basis, and stated at historical cost.

5. Accounting for foreign currencies transactions

Since separate books and records are kept for foreign currency transactions in original currencies. There is no foreign currency translation required.

6. Translation of foreign currencies financial statement

Balance sheet items (excluding shareholder’s equity items) are translated into RMB at the exchange rate prevailing on the balance sheet date; equity items are translated into RMB at historical exchange rates prevailing on the date of transactions. The differences resulting from the fluctuation of exchange rates are reported as an independent item named “Exchange losses”.

Income statement items are translated into RMB at the exchange rate prevailing on the balance sheet date.

7. Consolidation of financial statements

In accordance with *The Law on Commercial Banks of the P.R.C.* came into effect on 10 May, 1995, the Company is prohibited from investing in any non-bank financial institutions and other enterprises in China. There is no subsidiary in the reporting period; therefore no consolidation of financial statements is required.

8. Basis for recognition of cash and cash equivalents

Judging on the nature of banking industry, cash equivalents of the Company include demand deposit with the central bank (excluding the statutory deposit reserve), amounts due from banks and other financial institutions (excluding those

overdue and fixed-term deposits with tenure of more than 3 months) and placements with banks and other financial institutions maturing within 3 months.

9. Discounted bills, reverse repurchase agreements-bills, repurchase agreements-bills, and the related accounting methods

Discounted bills mainly fall into the following 4 categories: first, the discount accepted by the company from customers holding the commercial bills that have been honored but not matured, second, the outright purchase rediscount accepted by the company from other financial institutions; third, the company's outright purchase rediscount with the central bank out of the need of capital management; fourth, the company's outright purchase rediscount with other financial institutions. Since all the above categories belong to outright purchase, they will be represented by the balance between assets and liabilities in financial statements.

Reverse repurchase agreements-bills mainly refer to the counter-purchase rediscount accepted by the company from other financial institutions and must be represented under assets in financial statements.

Repurchase agreements-bills mainly refer to the counter-purchase rediscount of the company's bill with the central bank out of the need of capital management and counter-purchase rediscount with other financial institutions and must be represented under liabilities in financial statements.

10. Classification of loans

(1) Identification to the short, mid and long-term loans

Short, mid and long-term loans are classified by maturities of the loans. Loans with maturities of one year or less are classified as short-term loans; loans with maturities of more than 1 year are classified as mid and long term loans.

(2) Recognition of overdue loans

Loans that meet one of the following criteria are recognized as overdue loans:

Loans that are not repaid at their due date (including those overdue after extension) due to borrowers inability to meet their obligation, overdue import & export advances and negotiations, overdue card overdraft;

Passive fill-up by the Company due to: (A) In discounting of bills, the acceptor failed to honor the bills, and the applicant does not have enough deposit with the Company; (B) At the due date of bank acceptance draft, L/Cs or L/Gs, the applicant failed to honor the debt, and the guarantor does not have enough deposit

with the Company.

(3) Definition basis of a non-accrual loan

If a loan cannot be refunded when its principal or interest accrued is 90 days overdue, the calculation and drawing of its interest is to be stopped, and the loan is transferred to a non-accrual loan. Before a loan is transferred in this way, it is regarded as an accrual loan.

11. Accounting for bad loans

(1) Criteria for recognition of bad loans

When one of the following arises, after all possible measures have taken place and all necessary procedures have been performed, the loans that cannot be recovered as scheduled by the Company are classified as bad loans:

A. Both the borrower and guarantor have declared bankrupt, shut down or dissolved, and they have ceased to exist as legal persons, and the loan cannot be recovered after the legal liquidation proceedings have been performed against the borrower and guarantor;

B. The borrower deceased or has been declared dead or missing by the court in accordance with *the General Principles of Civil Laws of the PRC*, and the loan cannot be recovered after repayment of his debt out of his properties or heritage and exercise of recourse against the guarantor;

C. The borrower has suffered material loss caused by drastic natural disaster or accident that is not covered by insurance, which causes failure to repay all or part of its indebtedness to the Company, or it cannot repay the loans out of the insurance indemnity, and the loan cannot be recovered in full after the exercise of recourse against the guarantor;

D. The borrower and guarantor, though not formally declared bankrupt, shut down or dissolved, have terminated its business activities and have been de-registered by the administration authorities of industry and commerce, and they have ceased to exist as a legal person. And, the loan still cannot be recovered after claiming repayment out of the properties of the borrower and exercise of recourse against the borrower and guarantor;

E. The borrower has committed a crime and is subjected to criminal sanction, and the loan cannot be recovered in full by the Company out of its properties, and there is no other party to assume this liability, thus the loans cannot be recovered after exercise of recourse;

F. The Company has sued the borrower and/or the guarantor for their inability to repay the borrowings when falling due, and the court, at the request of the Company, made an enforced execution on the borrower and/or guarantor, but it was determined that no property is available for the settlement of the debt. And after the court has decided upon the termination of the enforced execution, all or part of the loan still cannot be recovered by the Company;

G. For advances made by the Company in the case of credit overdraft, establishment of L/C and L/G, acceptance of bank drafts etc., the applicant and the guarantor failed to reimburse that advance for the reasons presented in A-F above, and after exercise of recourse by the Company, the advance still cannot be recovered;

H. In the case of equity investment that the Company is entitled to legitimately make in accordance with relevant laws and regulations, the Company, after liquidation and exercise of recourse, still can not recover its equity interests in invested enterprises that have gone bankrupt, shut down or dissolved and ceased to exist as legal persons;

I. Loans written off as approved specifically by the State Council.

If bad loans cannot be recovered and supported by sufficient evidences, the bad loans can be written off upon the approval of the Executive Meeting of the Company.

(2)Provision for bad loans policy: Allowance method.

Bad loans provision is made for lending assets including: loans (including secured loans, mortgage and other collaterals, guaranteed loans and unsecured loans), overdraft of debit card, discounted bill (including discounting of bank acceptance draft and commercial acceptance draft, and purchase of foreign currency bills), advances (including advances for bank acceptance draft, advances for guarantee and L/C, etc.), import & export advances and negotiations, placements with banks and other financial institutions. No provision for designated loans will be made as no risk assumed by the Company.

In accordance with the regulations “*Provisions of Bank Loan Losses*” [YF(2002)NO.98] issued by the PBOC, general provisions is provided quarterly, and the balance of the general provisions is not less than 1% of the balance of all lending assets at the balance sheet date. In addition, from 2002, specific provision is provided for particular losses incurred according to the level of risks and their recoverability.

The percentage of specific provision is detailed as follows:

Five-tier-classification of loans

Percentage of specific provision (%)

Pass	0
Special mentioned	2
Sub-standard	25
Doubtful	50
Loss	100

12. Accounting for bad debts

(1) Criteria for identification of bad debts:

When one of the following situations arises, the receivables that cannot be recovered as scheduled are classified as bad debts:

A. The debtor has declared bankrupt or deceased, and the receivables cannot be recovered after repayment of the debt out of the properties or heritage;

B. The debtor unable to repay the amounts when they fall due and there is strong evidence as to the inability of the debtor to repay the whole or part of the amount outstanding;

C. Other receivables not repaid in 3 years.

If the fact that the receivables mentioned above cannot be recovered is proved to be true by strong evidence, the bad debts can be written off after approved by the Executive Meeting of the Company.

(2) Accounting for provisions for bad debts: Allowance method.

The scope of receivables to provide provisions includes: interest receivable (excluding interest receivable from loans and advances, and interest receivable from financial institutions), dividend receivable, lease expense receivable and other receivables.

The Company makes provision for bad debts of receivables according to aging method and specific recoverability.

The percentages of provisions for bad debts based on maturity are as follows:

<u>Maturity</u>	<u>percentage (%)</u>
Within 90 days	2
90-180 days	25
180 days – 1 year	50
Over 1 year	100

13. Accounting for short-term investments

Short-term investments are accounted for at historical cost. Investment income is recognized when they are disposed or cash received upon maturity.

14. Recognition of interest income or interest expense on placements/borrowings

Interest income/expense on inter-bank placements/borrowings is recognized on accrual basis.

15. Repurchase and reverse repurchase transactions

Repurchase and reverse repurchase transactions are accounted for at historical cost.

16. Accounting for long-term investments

(1) Accounting for long-term bonds investments: The cost of long-term bonds investments must be calculated on the basis of the total price actually paid after not only such additional expenses as agency commission, taxes and service fee but also the accrued interest for the period from the date of issuance or the last date of interest settlement to the date of purchase. The premium or discount of long-term bonds investments must be amortized with the straight-line method during the term of the long-term bonds. The interest income of long-term bonds investments must be calculated and drawn by installments. As regards the bonds investments whose principal and interest must be refunded once and for all on the date of expiration, the interest not yet received must be represented under the subject of long-term bonds investments as “long-term bonds investments--accrued interest”. As regards the bonds investments whose interest must be paid by installments during the term of the long-term bonds, the interest not yet received must be represented under the subject of “interest receivable” on the date of the balance sheet.

(2) Accounting for long-term equity investments: As stipulated in *the Law on Commercial Banks of the P.R.C.* (“*the Law*”), the Company is prohibited from investing in any non-bank financial institutions and other enterprises in China. Such investments made prior to *the Law*’s enforcement should be disposed and the cost method is adopted.

17. Accounting for fixed assets

(1) Fixed assets are assets that meet one of the following criteria: (a) properties and buildings, machinery equipment, transportation facilities, electronic appliances and computers used in operation of the Company with economic useful lives of more than 1 year; (b) consumables with economic useful lives of 2 years or more with individual values exceeding RMB 2,000.

(2) Depreciation on fixed assets is provided on straight-line basis. When

determining depreciation rates for each group of fixed assets, the original cost of fixed assets and their estimated useful lives are taken into consideration. Their residual value is estimated to be zero. Annual depreciation rates for each category of fixed assets are detailed as follows:

Items	Useful lives (years)	Depreciation rate p.a.
Properties and buildings	20-30	3.33-5%
Transportation facilities	6-8	12.5-16.67%
Other equipment	5-10	10-20%

18. Accounting for construction in progress

Constructions in progress are valued at historic cost. When they reach their expected usable condition, they will be transferred to fixed-assets account.

19. Valuation, amortization of intangible assets

(1) Valuation: Intangible assets are valued at actual cost incurred.

(2) Amortization of intangible assets

A. The charges for additional seats in stock exchange are amortized over 10 years starting in the month in which they were acquired;

B. Trademarks are amortized over 10 years starting in the month in which they were acquired;

C. Land use right are amortized over their useful lives starting in the month in which they were acquired;

D. Computer software is amortized over 5 years starting in the month in which they were acquired.

20. Recognition and amortization of long-term deferred expenses

(1) Decoration and furnishing expenditure of business operation premises are recognized as the historic cost incurred and amortized on straight-line basis over the duration of lease or estimated useful lives, whichever is shorter, starting in the month in which these premises are put into use;

(2) Rental expenses are amortized on straight-line basis over the duration of lease.

21. The principle of revenue recognition

(1) Interest revenue

A. Interest revenue on loans granted is recognized on accrual basis.

As prescribed by the document CJ (2002) NO.5 “*Notification on Shortening the Calculating Period of Interest Receivable for Financial Institutions*” issued by the Ministry of Finance, interest receivable that are overdue for less than 90 days (inclusive) should be reflected in the profit and loss account; when interests receivable of loans are overdue for more than 90 days, regardless the principles related thereto are overdue or not, they should be charged off to the current period profit and loss account and transferred off-balance-sheet, any interest income previously recognised and accrued is also reversed against interest income and transferred off-balance-sheet. Interest receivables overdue for more than 90 days are reflected in the current period profit and loss account for the period when they are actually received.

B. Interest revenue on discounted bills is the difference between maturity value and the discounted value of the bill actually paid to the applicant, which is recognized when the discounting took place.

C. Interest revenue on placement activities and securities is recognized on accrual basis.

(2) Handling charges and commissions: Handling charges and commissions is recognized when it is actually received by the Company.

(3) Other operating revenue, including income on guarantees issued etc., is recognized upon receipt.

22. Accounting for income taxes: The tax payable method was adopted for accounting for income taxes.

23. Accounting for derivative financial instruments and recognition of related gain/loss

Recognition for derivative financial instruments: The Company uses derivatives mainly for hedging purposes except for those tradings on behalf of clients. In order to minimize the market risks, the Company enters into back-to-back agreements with third parties, which effectively transferred away the Company’s risk exposure arising from the contracts. Derivatives are carried in the books of the Company at their value upon receipt/payment, and their nominal value and fair value are disclosed off-balance-sheet.

(1) Gains and losses are recognized on the settlement date.

(2) Criteria of accounting for hedging activities: The Company uses hedging as part of its asset/liability management activities in the event that there are mismatches in exchange rate, interest rate, and duration etc.

III. Taxation

The taxes and surcharges applicable are as follows:

Category	Calculation basis	Tax and surcharge rate	Remarks
Business tax	Operating revenue, less income from financial institutions and investments	5%	
City maintenance and construction tax	Municipal business tax	7%	
Educational surcharge	Municipal business tax	3%	
Income tax	Taxable income	33%	

Notes:

As prescribed by the document CS(2001)NO.21 “*Notification of Reducing the Business Tax Rate for Financial Institutions and Insurance Companies*” issued by the Ministry and the National Administration of Taxation, between 2001 and 2003, the rate of business tax for financial institutions will be reduced by 1% each year. After 2003, the rate of business tax for financial institutions will be reduced to 5%. Thus in 2000, 2001, 2002 and 2003, the rate of business tax applicable is 8%, 7%, 6% and 5% respectively.

Shenzhen branch is subject to income tax rate of 15%. At the end of each year, the headoffice will arrange centralized tax filling for all local branches as a single tax payer

IV. Notes to Significant Items of the Financial Statements

1. Cash on hand and in bank

Currency	2003	2002
RMB	562,895	416,794
Foreign currencies(RMB equivalent)	<u>234,125</u>	<u>236,480</u>
Total	<u>797,020</u>	<u>653,274</u>

2. Due from the central bank

Items	2003	2002
Deposit reserve *	11,110,470	6,371,111
Demand deposit with the Central bank (excluding statutory deposit reserve)	35,310,333	19,825,110
Financial deposit	<u>44,861</u>	<u>39,117</u>
Total	<u>46,465,664</u>	<u>26,235,338</u>

Note*: As stipulated by PBOC, the balance of deposit reserve should not be less than 7% of the balance of RMB deposits. The balance of foreign currencies deposit reserve should be 2% of the balance of foreign currency deposits.

3. Due from banks and other financial institutions

Items	2003	2002
Due from domestic banks and other institutions	7,516,842	5,911,389
Due from offshore banks and other institutions	<u>998,254</u>	<u>843,330</u>
Total	<u>8,515,096</u>	<u>6,754,719</u>

Note: The amounts due from banks and other financial institutions include overdue deposit of USD 1, 500,000 from Financial Company of Shandong Heavy Vehicle Corporation, RMB19,823,380 from Shenzhen Seg Financial Company and RMB15, 830,000 from various financing centers in China, which may result certain losses.

4. Inter-bank placements

Items	2003	2002
Due from domestic banks and other institutions	300,000	1,331,338
Due from offshore banks and other institutions	<u>16,553</u>	<u>173,824</u>
Total	<u>316,553</u>	<u>1,505,162</u>

Note: The placements balance with domestic banks includes overdue

placements of RMB40,000,000 from Hainan Development Bank and RMB20,000,000 from Hainan Financing Center (For details, please refer to “Non-adjusting Post Balance Sheet Date Events”), which may result certain losses. Provision for losses of 1% of the balance was made at the balance sheet date.

5. Placement with non-bank financial institutions

Category	2003	2002
Financial companies	194,015	492,000
Trust and investment companies	25,000	1,452,000
Security companies	<u>1,467,000</u>	<u>404,025</u>
Total	<u>1,686,015</u>	<u>2,348,025</u>

Note: The placement balance with financial companies included overdue placements of USD9,000,000 from Huaxin (Holding) Co., Ltd. and USD8,400,000 from Jianxing Financial Co., Ltd., which may result certain losses. Provision for losses of 1% of the balance was made at the balance sheet date.

6. Short-term loans

Items	2003	2002
Unsecured	15,080,888	9,819,647
Guaranteed	56,940,734	38,889,577
Secured by mortgage	15,225,047	8,807,902
Secured by other collaterals	<u>12,334,637</u>	<u>7,951,704</u>
Total	<u>99,581,306</u>	<u>65,468,830</u>

7. Import & export advances and negotiations

Items	2003	2002
Import advances and negotiations	843,694	571,359
Export advances and negotiations	<u>88,351</u>	<u>102,125</u>

Total	<u>932,045</u>	<u>673,484</u>
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8. Interest receivable

(1) On balance sheet

Items	2003	2002
Interest on loans	11,908	165,775
Interest on placement and repurchase agreement	7,457	9,012
Interest on debentures	314,110	373,709
Other interest	<u>1,409</u>	-
Total	<u>334,884</u>	<u>548,496</u>

Note: The opening balance of interest receivable on loans includes the interest receivable of over 90 days, which totals RMB156,746,000.00.

(2) Off balance sheet

	2003	2002
Amount	<u>1,518,396</u>	<u>1,199,808</u>

9. Other receivables

(1) Analysis of account age

Maturity	2003	Percentage(%)	2002	Percentage(%)
Within 1 year	218,081	87.79	116,701	78.34
1-2 years	14,722	5.93	18,726	12.57
2-3 years	5,427	2.18	4,758	3.19
Over 3 years	<u>10,181</u>	<u>4.10</u>	<u>8,783</u>	<u>5.90</u>
Total	<u>248,411</u>	<u>100</u>	<u>148,968</u>	<u>100</u>

(2) Breakdown

Items	2003	2002
Capital in transit	134,881	48,258
Other receivables	55,926	40,086

Other expenses receivable	28,200	28,176
Lawsuit expenses for cases to be settled	15,988	20,374
Intra-city bill clearing	8,140	-
Temporary borrowings	2,352	557
Advances	1,360	3,606
Amounts in suspense	1,069	4,536
Receivable interest of bonds with installment interest payment	-	106
Other suspense payments	344	81
Receivables to be cleared and cancelled	136	136
Losses in suspense	8	339
Errors to be checked	<u>7</u>	<u>2,713</u>
Total	<u>248,411</u>	<u>148,968</u>

10. Provision for bad debts

	2003	2002
Opening balance	39,327	
Provisions charged for the year	-1,804	38,680
Recoveries		651
Write off for the year	<u>5,834</u>	<u>4</u>
Closing balance	<u>31,689</u>	<u>39,327</u>

11. Discounted bills

Items	2003	2002
Forfaiting	4,750	
Bank acceptance discounted	7,234,599	10,900,415

Commercial acceptance discounted	5,747,721	6,030,589
Notes in foreign currency discounted	<u>4,919</u>	<u>-</u>
Total	<u>12,991,989</u>	<u>16,931,004</u>
12. Short-term investments		
Items	2003	2002
Investment in treasury bonds	1,506,766	428,307
Investment in financial bonds	4,555,247	59,510
Investment in debentures in foreign currency	<u>1,073,714</u>	<u>858,479</u>
Total	<u>7,135,727</u>	<u>1,346,296</u>
13. Reverse repurchase agreements-securities		
Items	2003	2002
Treasury bonds	410,000	4,875,000
Financial bonds	<u>358,495</u>	<u>7,105,000</u>
Total	<u>768,495</u>	<u>11,980,000</u>
14. Reverse repurchase agreements-bills		
Items	2003	2002
Bank acceptance	9,790,325	1,230,213
Commercial acceptance	<u>635,180</u>	<u>206,400</u>
Total	<u>10,425,505</u>	<u>1,436,613</u>
15. Deferred expenses		
Items	2003	2002
Rental expenses	18,933	3,920
Others	<u>612</u>	<u>-</u>

Total	<u>19,545</u>	<u>3,920</u>
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16. Long-term investments maturing within 1 year

Items	2003			Total
	Face value	Premium/ discount	Accumulated interest accrued	
Treasury bonds	1,924,790	-293	13,076	1,937,573
Financial bonds	-	-	-	-
Bonds in foreign currencies	<u>7,735</u>	<u>550</u>	<u>-</u>	<u>8,285</u>
Total	<u>1,932,525</u>	<u>257</u>	<u>13,076</u>	<u>1,945,858</u>

Items	2002			Total
	Face value	Premium/ discount	Accumulated interest accrued	
Treasury bonds	1,154,908	8	7,424	1,162,340
Financial bonds	594,600	-	-	594,600
Bonds in foreign currencies	<u>411,641</u>	<u>971</u>	<u>-</u>	<u>412,612</u>
Total	<u>2,161,149</u>	<u>979</u>	<u>7,424</u>	<u>2,169,552</u>

17. Other current assets

Items	2003	2002
Reverse repurchase agreements-loans	3,637,600	-
Others	<u>-</u>	<u>14</u>
Total	<u>3,637,600</u>	<u>14</u>

18. Mid and long-term loans

Items	2003			2002		
	Total	1-5 years	Over 5 years	Total	1-5 years	Over 5 years

Unsecured	7,529,064	6,218,241	1,310,823	5,695,923	5,081,476	614,447
Guaranteed	16,997,720	12,980,105	4,017,615	11,135,513	9,159,700	1,975,813
Secured by Mortgage	9,760,294	3,942,983	5,817,311	4,211,124	3,664,213	546,911
Secured by other collaterals	<u>5,136,198</u>	<u>2,645,678</u>	<u>2,490,520</u>	<u>3,664,431</u>	<u>2,104,135</u>	<u>1,560,296</u>
Total	<u>39,423,276</u>	<u>25,787,007</u>	<u>13,636,269</u>	<u>24,706,991</u>	<u>20,009,524</u>	<u>4,697,467</u>
Percentage	100%	65.41%	34.59%	100%	80.99%	19.01%

19. Overdue loans

	2003	2002
Unsecured	27	
Guaranteed	65,489	95,868
Secured by mortgage	33,151	110,531
Secured by other collaterals	<u>5,491</u>	<u>5,270</u>
Total	<u>104,158</u>	<u>211,669</u>

20. Non-accrual loans

Items	2003			
	Total	2 years or less	2-3years	Over 3 years
Unsecured	273,011	151,143	71,361	50,507
Guaranteed	2,670,308	1,805,028	389,199	476,081
Secured by mortgage	834,041	399,351	90,986	343,704
Secured by other collaterals	<u>135,202</u>	<u>52,188</u>	<u>82,366</u>	<u>648</u>
Total	<u>3,912,562</u>	<u>2,407,710</u>	<u>633,912</u>	<u>870,940</u>

Items	2002			
	Total	Within 2 years	2-3years	Over 3 years

Unsecured	62,746	5,658	13,096	43,992
Guaranteed	1,886,386	711,181	373,917	801,288
Secured by mortgage	838,710	213,605	155,786	469,319
			<u>13,00</u>	
Secured by other Collaterals	<u>113,644</u>	<u>93,671</u>	<u>0</u>	<u>6,973</u>
Total	<u>2,901,486</u>	<u>1,024,115</u>	<u>555,799</u>	<u>1,321,572</u>

21. Provision for bad loans

	2003	2002
Opening balance	1,243,500	274,092
Provisions charged for the year	1,189,898	962,831
Recoveries	3,040	6,577
Write off for the year	<u>85,812</u>	<u>-</u>
Closing balance	<u>2,350,626</u>	<u>1,243,500</u>

22. Long-term bonds investments

Items	2003			Total
	Face value	Premium/ discount	Accumulated interests accrued	
Investment in treasury bonds	10,980,766	193,244	25,600	11,199,610
Investment in financial bonds	4,447,000	30,908	-	4,477,908
Investment in debentures in foreign currencies	<u>3,732,232</u>	<u>48,233</u>	<u>-</u>	<u>3,780,465</u>
Total	<u>19,159,998</u>	<u>272,385</u>	<u>25,600</u>	<u>19,457,983</u>

Items	2002			Total
	Face value	Premium /discount	Accumulated interests accrued	
Investment in treasury bonds	13,009,992	256,820	37,044	13,303,856

Investment in financial bonds	6,122,000	78,611	-	6,200,611
Investment in debentures in foreign currencies	<u>3,886,054</u>	<u>81,868</u>	<u>-</u>	<u>3,967,922</u>
Total	<u>23,018,046</u>	<u>417,299</u>	<u>37,044</u>	<u>23,472,389</u>

23. Long-term equity investments

Invested company	2003	2002
China Union pay Co., LTD.	50,000	50,000
Yongchen Real Estate Co., Ltd.	<u>-</u>	<u>7,000</u>
Total	<u>50,000</u>	<u>57,000</u>

24. Fixed assets and accumulated depreciation

Category	Fixed assets – Costs			
	2002	Addition	Disposal	2003
Properties and buildings	2,092,635	518,868	22,912	2,588,591
Transportation facilities	146,982	39,991	16,748	170,225
Others	<u>388,381</u>	<u>128,475</u>	<u>28,934</u>	<u>487,922</u>
Total	<u>2,627,998</u>	<u>687,334</u>	<u>68,594</u>	<u>3,246,738</u>

Category	Accumulated depreciation			
	2002	Addition	Disposal	2003
Properties and buildings	279,242	72,725	5,892	346,075
Transportation facilities	54,613	19,939	10,399	64,153
Others	<u>159,277</u>	<u>65,524</u>	<u>20,937</u>	<u>203,864</u>
Total	<u>493,132</u>	<u>158,188</u>	<u>37,228</u>	<u>614,092</u>

Note: A total of RMB245,664,000.00 has been transferred from construction in process into fixed assets.

25. Construction in progress

Project name	Budget	Approval document	Opening balance	Addition	Disposal	Closing balance	Source of funding
Mansion of Shenzhen Branch	171,277		119,894	51,383	171,277	-	Working capital

Decoration expenditure of Shanghai Branch			17,619	46	17,665	-	
Business Building of Ningde Branch	8,170	92(072)	13,721	-	13,721	-	Others
Zhongting Rd. Building of Fuzhou Branch	13,772	2000(98)	13,050	1,576	14,626	-	Others
Mansion of Chongqing Branch			-	50,000	-	50,000	
Mansion of Guangzhou Branch			-	45,446	45,446	-	
Others			<u>30,142</u>	<u>50,206</u>	<u>60,489</u>	<u>19,859</u>	
Total			<u>194,426</u>	<u>198,657</u>	<u>323,224</u>	<u>69,859</u>	

26. Intangible assets

Category	Method of acquisition	Original cost	Opening balance	Addition	Amortization	Accumulated amortization	Closing balance
Computer software	Purchased	32,444	3,830	28,047	2,861	3,428	29,016
Additional seat in the stock exchange	Purchased	800	560	-	80	320	480
Trademark	Purchased	200	100	-	25	125	75
Land use right	Purchased	<u>2,590</u>	<u>2,533</u>	<u>-</u>	<u>107</u>	<u>164</u>	<u>2,426</u>
Total		<u>36,034</u>	<u>7,023</u>	<u>28,047</u>	<u>3,073</u>	<u>4,037</u>	<u>31,997</u>

27. Long-term deferred expenses

Items	Original cost	Opening balance	Addition	Disposal	Accumulated amortization	Closing balance
Decoration expense of business buildings	402,178	180,585	124,890	59,233	155,936	246,242
Starting-up expenses	15,384	68	14,380	14,448	15,384	-
Others	<u>23,394</u>	<u>15,464</u>	<u>4,118</u>	<u>10,701</u>	<u>14,513</u>	<u>8,881</u>
Total	<u>440,956</u>	<u>196,117</u>	<u>143,388</u>	<u>84,382</u>	<u>185,833</u>	<u>255,123</u>

28. Assets possessed from insolvent debtors pending disposal

Items	2003	2002
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Properties and buildings	536,855	155,265
Land use right	95,242	95,242
Motor Vehicles	955	955
Equity rights	<u>8,994</u>	<u>8,994</u>
Total	<u>642,046</u>	<u>260,456</u>

29. Short-term deposits

Currency	2003	2002
RMB	93,395,610	75,180,286
Foreign Currencies(RMB equivalent)	<u>1,622,693</u>	<u>1,341,814</u>
Total	<u>95,018,303</u>	<u>76,522,100</u>

30. Short-term saving deposits

Currency	2003	2002
RMB	6,947,984	6,594,157
Foreign Currencies(RMB equivalent)	<u>334,150</u>	<u>296,617</u>
Total	<u>7,282,134</u>	<u>6,890,774</u>

31. Amounts due to the central bank

Items	2003	2002
Re-borrowing from the central bank	<u>300,000</u>	—
Total	<u>300,000</u>	—

32. Amounts due to banks and other financial institutions

Institution	2003	2002
Banks	9,033,785	1,232,133
Trust and investment companies	451,929	75,019
Other non-bank institutions	<u>18,844,373</u>	<u>16,211,820</u>
Total	<u>28,330,087</u>	<u>17,518,972</u>

33. Inter-bank borrowings

Institution	2003	2002
Banks	1,200,000	500,000
Other non-bank institutions	<u>-</u>	<u>20,000</u>
Total	<u>1,200,000</u>	<u>520,000</u>

34. Repurchase agreements- securities

Items	2003	2002
Financial bonds	2,228,500	1,870,000
Treasury bonds	1,490,000	1,280,000
Debentures in foreign currencies	<u>406,678</u>	<u>-</u>
Total	<u>4,125,178</u>	<u>3,150,000</u>

35. Repurchase agreements-bills

Institution	2003	2002
Central bank	850,558	641,578
Other non-bank institutions	<u>3,402,848</u>	<u>12,785,801</u>
Total	<u>4,253,406</u>	<u>13,427,379</u>

36. Short-term guarantee deposits

Items	2003	2002
Deposits for L/C	695,276	437,165
Deposits for foreign exchange transactions	1,982	267,431
Deposits for bank acceptance draft	1,782,284	10,678,358
Others	<u>1,786,556</u>	<u>2,804,295</u>
Total	<u>4,266,098</u>	<u>14,187,249</u>

37. Interest payable

Items	2003	2002
Interest payable on deposits	525,369	403,573
Interest payable on banks and repurchase agreements	<u>5,627</u>	<u>590</u>
Total	<u>530,996</u>	<u>404,163</u>

38. Taxes payable

Items	2003	2002
Income tax	406,918	191,916
Business tax	107,403	102,266
City maintenance and construction tax	5,622	5,276
Real estate tax	377	1,361
Others	<u>2,289</u>	<u>1,857</u>
Total	<u>522,609</u>	<u>302,676</u>

39. Other Taxes Payable

Items	2003	2002
Basic endowment insurance fund payable	14,777	13,437
Stamp duty payable	2,093	682
Education surcharge payable	1,988	2,278
Unemployment premium payable	1,155	5,796
Public reserve fund for housing payable	<u>949</u>	<u>1,063</u>
Total	<u>20,962</u>	<u>23,256</u>

40. The dividends payable totaling RMB 67,496,616.07 at period end mainly

consists of the dividend for the year 2003 distributed but not yet paid.

41. Other payables

Items	2003	2002
Other payables	297,063	134,078
Promissory notes	227,882	110,730
Payables for re-exchange and collection	84,342	494
Payables for agency collection and payment	45,774	10,353
Other expenses payable	35,370	21,882
Aged payable pending for collection	14,363	9,476
Additional endowment insurance fund payable	9,523	2,646
On account debit documents of intra-city presentation	8,964	10,711
Educational expense payable	7,166	9,294
Cash deposit temporarily collected	3,572	2,501
Trade union expenses payable	2,231	1,703
Interest taxes deducted by proxy	2,200	3
Amounts in suspense	2,177	1,382
Payables from agency collection of designated loans	2,035	-
Commission from agency business of Treasury bonds	576	15,647
Errors to be checked	559	453
Amounts in agency custody	268	1,680
Agency collection and handling of other banks' loan interest	<u>222</u>	<u>—</u>
Total	<u>744,287</u>	<u>333,033</u>

Note: Other payables consist of RMB193,927,000.00 transferred from the dividend payable to Fujian Finance Bureau.

42. Other current liabilities

Items	2003	2002
Repurchase agreements-loans	<u>1,835,000</u>	<u>3,115,000</u>
Total	<u>1,835,000</u>	<u>3,115,000</u>
43. Long-term deposits		
Currency	2003	2002
RMB	65,419,975	32,854,865
Foreign Currencies(RMB equivalent)	<u>3,233,684</u>	<u>4,211,004</u>
Total	<u>68,653,659</u>	<u>37,065,869</u>
44. Long-term saving deposits		
Currency	2003	2002
RMB	8,163,618	5,050,957
Foreign Currencies(RMB equivalent)	<u>1,703,634</u>	<u>2,098,818</u>
Total	<u>9,867,252</u>	<u>7,149,775</u>
45. Long-term guarantee deposits		
Items	2003	2002
Deposits for bank acceptance draft	18,263,216	70
Others	2,599,363	69,217
Deposits for L/C	276,220	381,220
Deposits for foreign exchange transactions	<u>1,464</u>	<u>176,239</u>
Total	<u>21,140,263</u>	<u>626,746</u>

46. The subordinated bond total RMB3,000,000,000.00 at period end.

Units	Amount
New China Life Insurance Co., Ltd.	1,000,000
Postal Deposit & Remittance Branch of the State Post Bureau	1,000,000
China Life Insurance Co., Ltd.	<u>1,000,000</u>
Total	<u>3,000,000</u>

Note: In Dec. 2003, the company issued subordinated bond totaling RMB3,000,000,000.00 with a term of 5 years and 1 month at the floating interest rate 2.01% over the benchmark rate of one-year fixed deposit stipulated by the People's Bank of China.

47. Paid-in capital

Items	Opening balance	Percentage (%)	Increase	Closing balance	Percentage (%)
Shares owned by state	1,204,761	40.16	-	1,204,761	40.16
Shares owned by state-owned legal person	1,209,700	40.32	-	1,209,700	40.32
Shares owned by legal persons other than promoters	<u>585,539</u>	<u>19.52</u>	<u>-</u>	<u>585,539</u>	<u>19.52</u>
Total	<u>3,000,000</u>	<u>100</u>	<u>-</u>	<u>3,000,000</u>	<u>100</u>

Note: The above shares are non-tradable ordinary shares with par value of RMB 1 each.

48. Capital reserves

Items	Equity premium over par value	Transferred in from other capital reserve items	Total
Opening balance	1,106,583	34,331	1,140,914
Increase/decrease in current year	<u>-</u>	<u>-</u>	<u>-</u>
Closing balance	<u>1,106,583</u>	<u>34,331</u>	<u>1,140,914</u>

49. Surplus reserve

Items	Statutory Surplus reserve	Reserve for welfare of employees	Discretionary surplus reserve	Total
Opening balance	331,139	220,597	836,805	1,388,541
Increase/decrease in current year	<u>98,455</u>	<u>49,227</u>	<u>-</u>	<u>147,682</u>
Closing balance	<u>429,594</u>	<u>269,824</u>	<u>836,805</u>	<u>1,536,223</u>

50. Retained Earnings

Items	2003
Balance of retained earnings as at 1 Jan, 2003	814,911
Add: Net profit for the year 2003	984,546
Less: Appropriations to statutory surplus reserve	98,455
Appropriations to reserve for welfare of employees	49,227
Appropriations to discretionary surplus reserve	-
Dividends declared for ordinary shares	<u>330,000</u>
Balance of retained earnings as at 31 Dec, 2003	<u>1,321,775</u>

Note: Dividends in an amount of RMB330,000,000.00 has been declared for ordinary shares according to the Resolution of Profit Distribution for the year of 2002, which was adopted in the 2002 Shareholders' Meeting held on 28th June 2003.51.
Operating revenue by geographic region

51. Operating revenue by geographic region

Region	For the year ended 31 Dec 2003		For the year ended 31 Dec 2002	
	Amount	Percentage (%)	Amount	Percentage (%)
Fujian province	2,639,878	28.35	2,534,962	39.60
Shanghai	1,291,391	13.87	1,009,210	15.77
Guangdong province	1,792,461	19.25	1,054,030	16.47
Beijing	765,040	8.22	509,307	7.96
Zhejiang province	1,084,059	11.64	468,339	7.32
Other regions in China	<u>1,737,841</u>	<u>18.67</u>	<u>824,769</u>	<u>12.88</u>

Total	<u>9,310,670</u>	<u>100</u>	<u>6,400,617</u>	<u>100</u>
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52. Investment income

Items	2003			2002		
	Short-term investment	Long-term investment	Total	Short-term investment	Long-term investment	Total
Income from bonds investment	<u>81,787</u>	<u>807,802</u>	<u>889,589</u>	<u>59,483</u>	<u>957,350</u>	<u>1,016,833</u>
Total	<u>81,787</u>	<u>807,802</u>	<u>889,589</u>	<u>59,483</u>	<u>957,350</u>	<u>1,016,833</u>

53. Business taxes and surcharges

Items	2003	2002
Business taxes	368,676	286,972
City maintenance and construction tax	22,287	14,236
Education surcharge	12,293	8,182
Others	<u>2,431</u>	<u>1,342</u>
Total	<u>405,687</u>	<u>310,732</u>

54. Non-operating income

Items	2003	2002
Gain on aged payable pending for collection	7,155	239
Gain on disposal of fixed assets	5,386	3,582
Penalties and fines received	1,477	578
Tellers' cash overage	47	70
Others	<u>12,846</u>	<u>17,930</u>

Total	<u>26,911</u>	<u>22,399</u>
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55. Non-operating expenses

Items	2003	2002
Loss on disposal of fixed assets	3,938	1,869
Relief donation expenses for public welfare	2,278	216
Penalties and fines paid	1,003	5,002
Relief donation expenses not for public welfare	1,555	3,033
Others	<u>8,200</u>	<u>5,913</u>
Total	<u>16,974</u>	<u>16,033</u>

56. Off-balance liabilities

Items	2003	2002
Bank acceptance draft	42,232,307	21,590,871
Letters of guarantee	2,335,466	629,500
Letters of Credit	5,362,489	1,726,777
Designated loans	2,049,062	1,635,001

57. Derivative financial instruments

2003	2002
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Nominal value	<u>2,192,805</u>	<u>393,320</u>
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58. Assets and liabilities represented by original currencies

Item	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
Assets:				
Cash on hand and in bank	562,895	123,464	110,661	797,020
Due from the central bank	46,074,864	363,700	27,100	46,465,664
Due from banks and other financial institutions	6,196,824	1,392,621	925,650	8,515,095
Placement with banks and other financial institutions	1,842,000	160,568 -		2,002,568
Reverse repurchase agreements- securities	768,495 -	-		768,495
Reverse repurchase agreements- bills	10,425,505 -	-		10,425,505
Discounted bills	12,982,320	4,750	4,919	12,991,989
loans(net)	136,125,819	4,770,657	706,245	141,602,721
Investments	23,727,103	4,638,976	223,489	28,589,568
Fixed assets	2,632,646 -	-		2,632,646
Construction in progress	69,859 -	-		69,859
Other assets	<u>5,037,495</u>	<u>78,153</u>	<u>22,269</u>	<u>5,137,917</u>
Total assets	<u>246,445,825</u>	<u>11,532,889</u>	<u>2,020,333</u>	<u>259,999,047</u>
Liabilities:				
Borrowing from the central bank	300,000	-	-	300,000
Borrowing from banks and other financial institutions	1,200,000	-	-	1,200,000
Due to banks and other financial institutions	25,164,261	2,393,323	772,503	28,330,087
Repurchase agreements- securities	3,718,500	406,678	-	4,125,178
Repurchase agreements-bills	4,253,406	-	-	4,253,406
Customer deposits	199,870,155	6,112,917	1,667,045	207,650,117
Other liabilities	<u>7,083,118</u>	<u>46,282</u>	<u>11,946</u>	7,141,346
Total liabilities	<u>241,589,440</u>	<u>8,959,200</u>	<u>2,451,494</u>	<u>253,000,134</u>
Net exposure:	<u>4,856,385</u>	<u>2,573,689</u>	<u>-431,161</u>	<u>6,998,913</u>

Note :Loans(net)=total loans+Import & export advance and negotiation-provision for bad loans

59. Assets and liabilities represented by liquidity distribution

Assets:	overdue	due on demand	within 3 months	months-1 year	1-5 years	over 5 years	total
Cash on hand and in bank	-	797,020	-	-	-	-	797,020
Due from the central bank and other financial institutions	48,068	48,663,325	1,454,795	1,960,652	1,780,763	1,073,157	54,980,760
Placement with financial institutions	204,015	-	1,782,000	16,553	-	-	2,002,568
Discounted bills, Reverse repurchase agreements-bills	-	-	15,759,282	7,658,212	-	-	23,417,494
Loans(net)	2,429,044	-	25,826,601	75,646,115	25,834,082	11,866,879	141,602,721
Investments	-	-	684,178	2,127,494	13,174,653	12,603,242	28,589,567
Other assets	-	155,789	2,352,623	2,465,451	-	3,635,054	8,608,917
Total assets	<u>2,681,127</u>	<u>49,616,134</u>	<u>47,859,479</u>	<u>89,874,477</u>	<u>40,789,498</u>	<u>29,178,332</u>	<u>259,999,047</u>
Liabilities:							
Due to the central bank and other financial institutions	-	28,330,087	300,000	-	-	-	28,630,087
Borrowings from financial institutions	-	-	1,200,000	-	-	-	1,200,000
Repurchase agreements-bills	-	-	2,771,878	1,481,528	-	-	4,253,406
Customer deposits	-	109,760,002	14,441,685	35,562,591	31,761,285	16,124,555	207,650,118
Other liabilities	-	1,092,457	5,350,675	705,939	1,026,219	3,091,233	11,266,523
Total liabilities	<u>-</u>	<u>139,182,546</u>	<u>24,064,238</u>	<u>37,750,058</u>	<u>32,787,504</u>	<u>19,215,788</u>	<u>253,000,134</u>
Net exposure:	<u>2,681,127</u>	<u>-89,566,412</u>	<u>23,795,241</u>	<u>52,124,419</u>	<u>8,001,994</u>	<u>9,962,544</u>	<u>6,998,913</u>

Note :Loans(net)=total loans+Import & export advance and negotiation-provision for bad loans

60. Loans distribution

Industries Distribution

Industry	2003		2002	
	Amount	Percentage (%)	Amount	Percentage (%)
Manufacturing	36,452,612	23.23	29,022,108	26.17
Real estates	21,565,388	13.74	11,225,337	10.12
Trading	13,440,907	8.56	9,851,275	8.89
Transportation	11,709,600	7.46	10,765,366	9.71
Construction	6,301,839	4.02	2,944,732	2.65
Communications and services	3,411,453	2.17	3,749,586	3.38
Discounted bills	12,991,989	8.28	16,931,005	15.26
Others	<u>51,071,548</u>	<u>32.54</u>	<u>26,404,055</u>	<u>23.81</u>
Total	<u>156,945,336</u>	<u>100</u>	<u>110,893,464</u>	<u>100</u>
Less: Bad loan provision	2,350,626		1,243,500	
Loans(net)	<u>154,594,710</u>		<u>109,649,964</u>	

Note: The real estates at the end of the current year refers to the enterprises engaged in both realty development and management and other activities concerning realty.

Geographic locations distribution :

Region	2003		2002	
	Amount	Percentage (%)	Amount	Percentage (%)
Fujian province	32,297,557	20.58	25,685,833	23.16
Guangdong province	28,007,989	17.85	20,991,231	18.93
Shanghai	23,756,745	15.14	19,152,350	17.27
Zhejiang province	18,209,916	11.60	12,217,286	11.02
Beijing	14,573,747	9.29	9,493,577	8.56
Other regions in China	<u>40,099,382</u>	<u>25.54</u>	<u>23,353,187</u>	<u>21.06</u>
Total	<u>156,945,336</u>	<u>100</u>	<u>110,893,464</u>	<u>100</u>
Less: Bad loan provision	2,350,626		1,243,500	
Loans(net)	<u>154,594,710</u>		<u>109,649,964</u>	

61. Reconciliation of cash and cash equivalents

Items	2003	2002
Cash on hand and in bank	797,020	653,274
Demand deposit with the central bank (exclusive of statutory deposit reserve)	35,310,333	19,825,110
Due from banks and other institutions (excluding fixed-term deposits maturing after 3 months)	7,028,337	6,703,623
Placements with banks and other financial institutions maturing within 3 months	<u>1,782,000</u>	<u>3,537,162</u>
Total	<u>44,917,690</u>	<u>30,719,169</u>

V. Disclosure of related Parties and Related Parties Transactions

1. Related parties without effective control

Company	Percentage (%)	Relations with the Company
Fujian Finance Bureau	34.00	Shareholder
China Electronics Corporation	5.00	Shareholder
Fujian Energy Source Investment Co., Ltd.	4.44	Shareholder
Shenzhen Chuyuan Investment & Development C o. Ltd.	2.80	Shareholder
UDC Development & Investment Co., Ltd.	2.50	Shareholder
Baisha Group	2.33	Shareholder
Oriental International Group Corp.	2.33	Shareholder
Guohua Energy Investment Co., Ltd.	2.33	Shareholder
Shanghai Baosteel Group Corporation	2.33	Shareholder
Longyan Finance Bureau of Fujian Province	2.33	Shareholder
Sanshui Jianlibao Health Industry Investment Co., Ltd.	2.33	Shareholder
Xishui Strong Year Co., Ltd Inner Mongolia	2.33	Shareholder

Note: As at 31 December 2003, there is no related party has effective control.
Aforesaid companies are the top 12 largest shareholders of the Company.

2. Receivables and payables balance with related parties who have no effective control

Company	2003			2002		
	Loans	Banker's acceptance draft	Other items off balance sheet	Loans	Banker's acceptance draft	Other items off balance sheet
China Electronics Corporation	-	-	-	200,000	-	-
Fujian Energy Source Investment Co., Ltd.	366,670	-	-	328,570	-	-
UDC Development & Investment Co., Ltd.	624,035	3,843	48,962	140,000	3,510	-
Oriental International Group Corp	129,807	-	165,703	67,040	7,525	199,280
Shanghai Baosteel Group Corporation	-	-	-	-	8,000	-
Sanshui Jianlibao Health Industry Investment Co., Ltd.	<u>190,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>1,310,512</u>	<u>3,843</u>	<u>214,665</u>	<u>735,610</u>	<u>19,035</u>	<u>199,280</u>

Note : Loans to relate parties are on normal commercial terms, and interests are charged at the market rates determined by the PBOC.

Note :Relate party includes the parent company and its holding companies.

VI. Contingencies

As at 31 December2003, there are no material contingencies for disclosure.

VII. Commitments

1. Operating lease commitments for premises and equipment as at 31 December, 2003

Duration	2003	2002
Within 1 year	165,649	128,763
1-5 years	397,121	334,611
Over 5 years	<u>123,424</u>	<u>145,751</u>
Total	<u>686,194</u>	<u>609,125</u>

2.Capital commitments

As at 31 December, 2003, major project contracted but not paid for, is as follow:

Total contracted amount for the project of construction of Chongqing Branch is RMB85,109,000 and RMB52,810,000 had been paid up to the year ended.

VIII. Non-adjusting Post Balance Sheet Date Events

The overdue placement with Hainan Financing Center totaling RMB20,000,000.00, RMB6,000,000.00 was refunded on Feb. 9, 2004 and the remaining RMB14,000,000.00 is to be refunded with the borrower's debt-offsetting property.

IX. Debt Restructuring

As at 31 December, 2003, there are no material debts restructuring events for disclosure.

X. Non-Monetary Transactions

As at 31 December, 2003, there are no material non-monetary transactions for disclosure.

XI. Other Matters and Events that May Warrant Disclosure

1. Investments in domestic non-bank financial institutions and enterprises to be disposed of As stipulated in *the Law on Commercial Banks of the P.R.C.* which came effective on 10 May, 1995, the Company is prohibited from investing in domestic non-bank financial institutions and enterprises, and investments of the Company made prior to the Law have become effective should be disposed of. Disposal method for these investments should be specifically prescribed by the State Council.

Investment made by the Company to be disposed of is detailed as follow:

Invested company	Amount	Book value at the end of the year
China Union Pay Co., Ltd.	50,000	50,000
Total	50,000	50,000

Note : The investment program of China Union Pay Co., Ltd. has been approved by the State Council.

2.As at 31 December, 2003, there are certain fixed assets, amounted to RMB478,051,000,of which title deeds have not been obtained due to various reasons. The company is in the process of obtaining the relevant legal documents.

3. At the 20th (temporary) meeting of 4th Board of Directors held on Dec. 12,

2003 and the 1st Temporary General Shareholders' Meeting held on Jan. 15, 2004 by the Company, "the Bill on Capital Increase and Shareholding Expansion and Introduction of Foreign Strategic Investors of Industrial Bank Co., Ltd." was examined and passed, indicating the Company's decision to issue 999 million new shares to the following overseas investors: Hang Seng Bank Limited, Techlink Investment Pte. Ltd. and International Finance Corporation.



福建华兴有限责任会计师事务所

Fujian Huaxing Certified Public Accountants Ltd

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AUDITORS' REPORT ON INTERNAL CONTROL

FJHXCPA (2004) AUDIT G-036

To the Board of directors of Industrial Bank Co., Ltd.:

We have audited the accompanying balance sheet of Industrial Bank Co., Ltd. (the "company") as at 31 December 2003, and the related statements of income and cash flows for the year then ended, and we have issued the standard Auditors' Report (NO. FJHXCPA (2004) AUDIT G-017) on March 5, 2004. In our audit, we have analyzed and evaluated the company's internal control related to the financial statements. The object of our analysis is not to provide the assurance of the company's internal control, but to ascertain the character, the time and the range of our auditing procedure, and hereby to express our opinion. Establishing the reasonable internal control system and ensuring the safety and integrality of the company's assets are the responsibility of the company's management. We conducted our analysis and evaluation in accordance with "The Independent Auditing Standards of the People's Republic of China - NO. 9: Internal Control and Audit Risk" and together



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with the object of auditing on the financial statements. In the process of our analysis and evaluation, we try to understand the company's control environment, accounting system and the control procedure, and our analysis and evaluation included enquiry, examining, observing, testing and other procedures that we considered necessary on the kinds of operations of the company such as credit, deposit, inter-bank funds transactions, intermediary services, electronic information system, internal audit.

Internal control has its inherent limit, so there exists the possibility of the mistakes and fraud occurred but not be detected. Furthermore, because of the variety and changing of the conditions, internal control may be not suitable or the control policy and control procedure can not be properly executed. So it is risky to presume the validity of the future internal control just basing on the current internal control.

Based on our analysis and evaluation of the company's internal control, we have not detected any material weakness and mistakes on designing and executing the company's internal control related to the financial statements as at December 31, 2003.



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This report is subjected to the Chinese version.

Attachment:

Industrial Bank Co., Ltd.'s notes to the integrality, reasonableness, validity of internal control.



Certified Public Accountants Ltd.

Fuzhou, Fujian, P.R.C

(signature)

Certified Public Accountant:

(signature)

Certified Public Accountant:

March 5, 2004

Appendix

A Statement to the Completeness, Rationality and Efficiency of Internal Control

With many years of practice and accumulation, the Bank has improved its management in many aspects including mind, capability and strength and a sound internal control system has gradually come into shape which met the demands of operation and management. And the completeness, rationality and efficiency were highly represented in this internal control system which played an important role in strengthening corporate governance and protecting from financial risks. The followings are what the Bank has been focusing on:

I. Endlessly Improving its Corporate Governance and Existing Organization Structure

The Articles of Association has been revised and the rules of the Board of Directors and the Supervisory Board have been improved to offer standards for the competency of directors and supervisors so as to better restructure both the two Boards. Moreover, the Bank constantly enlarges the channels of information disclosure with all major events disclosed efficiently and punctually and always meets the requirements of information disclosure set forth by government regulators.

The Bank has been searching for sound organization structure and has set up four functional systems including Decision Making Supporting System, Management & Supervising System, Operation Development System and Services Backing System. So far, the Bank has brought forth an Organization Restructuring Program to adjust relevant committees to practise matrix management and parallel business operation to improve operation efficiency.

II. Perfecting Reporting System of Internal Control and Information Feedback

The Bank has formed a Risk Control Reporting System including emergency report which provided multiple channels for information collecting, reporting and feedback within various levels. In addition, a Financial Management System and a Banking Supervisory & Statistic Information Management System have also been set up. And all kinds of data reporting form have been updated. All these were the result of making use of scientific technology to strengthen the standardized management of financial data which led to the Accounting Emergency Reporting System and Accounting Follow-up Supervisory Reporting System, and helped to improve communication and feedback of various information within the Bank.

III. Improving the Regulations for Authorization and Facility Granting

Authorization has been improved. In respect of business authorization, the Bank followed the principles of “Limited Authorization, Differentiated Authorization, Timely Adjustment and Combining Rights with Responsibilities”. Based on branches classification, the Bank granted different authorizations to branches with different classifications so that all business authorizations matched the capability of risk control of different branches. In September 2003, the Bank adjusted the authorization to all branches, that was, to increase a limit control of credit

volume to individual client based on approval limit of risk exposures.

The management of re-authorization has been strengthened. The Head Office gave out the limit re-authorization for the presidents of different branch to grant to vice president(s) and sub-branches. Should there be any severe problems discovered in utilizing the limit re-authorization or any descending of management in sub-branch, the Head Office would reduce or retract the limit re-authorization.

The management of credit facility granting has been improved. In 2003, the Bank drew up the Regulations for Risk Management of Credit Facility Granting to Group Clients, a Guide to the Operations of Credit Facility Granting to Group Clients. All branches, sub-branches and relevant departments were required to identify so called group clients strictly according to the standards given and truly reflect the affiliated relations of group clients. These affiliated relations should be registered, verified and maintained accurately and timely in the Credit Management Information System of the Bank.

IV. Strengthening Risk Management

In 2003, the Bank issued a series of regulations, manual and training materials including Regulations for Risk Management of Credit Facility Granting to Group Clients, Regulations for Management of Loan Capital Closed Operation for Real Estate Project, A Guide to Centralized Loans Granting, A Guide to the Professional Running of Outstanding Assets, Risk Management Manual, and Training Materials for Risk Management. The upgrading of the Credit Management Information System helped to realize a real time classification, and provide automatic batch classification with duly adjustment. All these improved the timeliness and accuracy of loan classification and increased the channels for information feedback.

V. Improving Internal Control of Risk Liabilities

The Bank started the revising of Regulations for Investigation of Credit Responsibilities in 2003. These regulations could be summarized as follows: if any branch going beyond its authorization or any improper behaviors against regulations found in credit business, the branch should be required to conduct rectification and the relevant loans should be returned. And the limits of authorization and re-authorization of the branch would be reduced and the wrong behavior would be publicized within the Bank. The Auditing Department would intervene into these issues and investigate the specific responsibilities of related parties and persons.

In addition, the Bank also practised the Management of Financial Authorization. Any executive actions exceeding the authorization were strictly not allowed. Due punishment would be inflicted upon the head of branch and individuals concerned in accordance with relevant regulations depending on the feature, influence and economic result of the wrong actions.

In 2002, the Bank issued the Regulations for Punishment of Infraction of Accounting & Settlement Standards. It required that wrong behaviors should be related to specific individuals and economic penalty should be combined with disciplinary punishment. Those who severely committed criminal offenses would be prosecuted for their criminal liabilities. And the typical cases would be publicized within the Bank.

VI. Enhancing the application of Scientific technologies and improving Internal Control concerning of Computers Safety

The Bank has established a Computer Safety Management System which answers to the present status of the Bank. Meanwhile, the Bank has made a systematic programming and reorganizing to the regulations of information and scientific technologies to meet the requirements of present work as well as future development. The Core Data Safety System is sound, and the installment of users' limits of authorization is reasonable with mutual checks and supervisions. Every year all the branches would conduct 2-3 times of self inspection and made relevant rectification accordingly and accepted spot checks of the Head Office. The Bank has a Computer Safety Leaders Group, and all emergencies and typical cases regarding computer safety should be reported to the Group and local Securities Unit and People's Bank of China in accordance with the requirements of financial safety cases reporting regulations.

VII. Intensifying Internal Auditing to Improve the Functions of Auditing Supervision

The independence of the functions of internal auditing supervision has been strengthened. The internal auditing departments are required to report to the Board of Directors. In order to establish an internal auditing management system to fit the needs of a state commercial bank, the Bank has restructured the Delegated Auditors Organizations, that is, cancelled all the Delegated Auditors Offices in the branches within Fujian Province, and established Fuzhou and Xiamen Auditing Centers, which would take charge of 4-5 branches respectively. For those branches outside Fujian, the Head Office would send a chief auditor to preside the Delegated Auditors Office with a complete set of auditing management mechanism to improve the independence and authority of internal auditing.

An imperative auditing has been emphasized. Anyone who presided a branch or sub-branch would accept an imperative auditing when he leaves his presidency. The Bank has introduced a responsibility confirmation mechanism to identify different responsibilities of the predecessor and the successor. Some key issues of the imperative auditing have been highlighted, that is, it will concentrated on the authenticity of assets, liabilities, profit and loss, especially the truthfulness of asset quality during one's presidency instead of auditing all work of relevant party.

In accordance with the present status of the internal control, the Bank will focus on the following:

1. To provide a better environment for internal control to improve internal management. The Bank will create an atmosphere of *internal control culture* to (i) integrate all attentions so that the concept of internal control could be clarified and understood; (ii) bring the idea of *Internal Control Leading the Way* to everyone so that the old internal control regulations would be adjusted to new business and new fields; (iii) strengthen ability oriented education for the staff: to provide as much training as possible, to imbue their minds with the concept of internal control, to increase their sense of responsibility and consciousness in implementing rules and regulations; (iv) open channels for staff to report or resist wrong behaviors, especially compelling behaviors coming from higher levels and to intensify the constraint to decision-makers' power; (v) carry out the rules of responsibilities investigations to inflict punishment to wrong behaviors to

safeguard the seriousness of rules and regulations.

2. To improve risk identification and assessment to (i) classify risks, analyze reasons and take preventive means; (ii) measure risks, that is, to conduct quantitative judgement based on qualitative analysis and take pre-cautious measurement in advance; (iii) intensify risk handling and decision making by taking the following measurements including risk avoidance, risk transference, risk dispersion, risk control and risk compensation according to risk controllability and influence to improve the ability of resisting risks.
3. To improve information communication. The Bank will further strengthen information communications among its institutions at all levels and between all links in the same level so that its employees could understand and abide by all policies, rules and regulations in respect of their duties and responsibilities and make sure that other relevant information could be communicated to the right people. Moreover, the Bank will make use of the advanced scientific and technological approaches to establish effective warning forecast mechanism so that the management can command sufficient and valid information for operation and management.
4. To establish an Internal Control Appraisal. The Bank will learn from the international peers for their updated internal control concept to establish an internal control appraisal suitable and operational to the practice of the Bank in order to strengthen self-monitoring and self-appraisal.
5. To reinforce the construction of auditors professional qualification. The Bank will further consolidate its auditing work and improve the auditors professional qualification through the following steps: (i) to establish incentive and competitive mechanism to invigorate the initiative of the auditors; (ii) to establish circulating mechanism so that good auditor can be employed and bad ones can be dismissed; (iii) to set up an auditor training center to update the auditors' knowledge in respect of risk prevention, internal control and management so as to guarantee the quality of auditing work; (iv) to research auditing approaches and methodologies to improve auditors' skill, target, efficiency and rapid response.